

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

FAMILY INDEPENDENCE AGENCY AND
MICHIGAN COMMISSION FOR THE BLIND FEDERAL PROGRAMS
WITHIN THE
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1994 through September 30, 1996

EXECUTIVE DIGEST

FAMILY INDEPENDENCE AGENCY

INTRODUCTION	This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) and Michigan Commission for the Blind Federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996.
AUDIT PURPOSE	This financial audit of FIA was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, <i>Audits of State and Local Governments</i> .
BACKGROUND	FIA's mission* is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and adults from abuse, neglect, and exploitation. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients. During most of our audit period, FIA was organized into five administrations, with the Family Services and Medical Services Administrations having primary responsibility for establishing and implementing

* See glossary on page 112 for definition.

most grant and services program policies. In addition, the Family Services Administration has oversight responsibility for FIA local offices. The Financial and Internal Control Administration is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports, and for the development of internal control policies and procedures. The Management Resources and Information Systems Administration provides various administrative support functions, including data processing, human resources, office services, and legal liaison with the Department of Attorney General. The Administration for Legislation, Budget, and Analysis performs various legislative liaison, budgetary, policy analysis, staffing and program evaluation, and quality assurance functions.

As of September 30, 1996, FIA had 13,424 employees. FIA major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA expenditures and operating transfers out for fiscal year 1995-96 were \$8.0 billion. In addition, FIA received and distributed \$733.2 million in federal nonfinancial assistance (food stamp coupons) in fiscal year 1995-96.

During our audit period, the Governor issued Executive Orders 1996-1, 1996-2, and 1995-2, which transferred certain FIA functions to different departments and functions from other departments to FIA. These transfers included the Medical Services Administration to the Department of Community Health and various licensing and regulatory functions to the Department of Consumer and Industry Services. In addition, transfers to FIA included the Commission for Disability Concerns, Michigan Commission for the Blind, the Weatherization program, and Community Services Block Grant program from the

Michigan Jobs Commission. Effective April 1, 1996, the former Department of Social Services was renamed the Family Independence Agency.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of FIA's internal control structure^{*}, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the internal control structure disclosed two material weaknesses*:

- FIA's expenditures authorized through the Unified Child Day Care (UCDC) payment system did not reconcile to expenditures recorded on the Michigan Administrative Information Network* (MAIN). We noted that expenditures recorded on MAIN for two fiscal years exceeded UCDC authorizations by a total of \$4.2 million, the amount of funds drawn for several federal programs was inaccurate, and expenditures totaling an estimated \$19.1 million reported on FIA's schedule of federal financial assistance for various federal programs were misclassified. (Finding 1.a.)

FIA agreed with the related recommendation and responded that it will comply.

- FIA's internal control procedures did not ensure that Children's Trust Fund (CTF) transactions were properly accounted for on MAIN. As a result of the errors noted during our current audit, we expressed an adverse opinion on CTF's balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and

^{*} See glossary on page 112 for definition.

changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. (Finding 12)

FIA agrees with the related recommendations and responded that it will comply by advising staff of the appropriate procedures and by providing ongoing guidance of the accounts payable and encumbrance processes throughout the fiscal year. In addition, the Office of Internal Audit will assist in the review of accounts payable and encumbrance carry-forwards established at year-end.

Our assessment also disclosed other reportable conditions^{*} in FIA's internal control structure in the areas of expenditures charged to inappropriate Federal grants (Finding 1.b.), case file internal control and documentation (Finding 2), cash management standards (Finding 3), expenditure processing (Finding 4), distribution of child support payments and application of locating procedures by child support specialists (Finding 5), adoption subsidy payments to ineligible children and verification of data entered into internal systems (Finding 6), reconciliation of reported program expenditures (Finding 7), provision of Weatherization services in accordance with federal regulations (Finding 8), subrecipient monitoring (Finding 9), maintenance of effort calculations (Finding 10), and processing of personnel and payroll transactions (Finding 11).

In addition, our assessment disclosed that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled*

^{*} See glossary on page 112 for definition.

Laws pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess FIA's compliance with both State and federal laws and regulations that could have a material effect on FIA's financial schedules, its financial statements, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on FIA's financial schedules. However, our assessment did disclose two instances of material noncompliance relating to FIA's financial statements and one major federal program:

- As reported under our internal control objective, FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN (Finding 12). As a result of FIA's material noncompliance with Act 431, P.A. 1984, as amended (Sections 18.1101 - 18.1594 of the *Michigan Compiled Laws*), in relation to CTF, we expressed an adverse opinion on the CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995.

FIA agrees with the related recommendations and responded that it will comply by advising staff of the appropriate procedures and by providing ongoing guidance of the accounts payable and encumbrance

processes throughout the fiscal year. In addition, the Office of Internal Audit will assist in the review of accounts payable and encumbrance carry-forwards established at year-end.

- FIA's Office of Quality Assurance reviews determined that benefits for federal Food Stamps Program (*Catalog of Federal Domestic Assistance* #10.551) recipients exceeded the tolerable federal mispayment rate in fiscal year 1995-96. As a result, FIA was sanctioned \$3.4 million (see Note 4a. in the notes to financial schedules and financial statements).

FIA agrees that it exceeded the tolerable federal mispayment rate and responded that it will implement measures to reduce the mispayment rate.

Audit Objective: To audit FIA's financial schedules and its CTF financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on FIA's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995 and on its CTF statement of revenues, expenditures, and changes in fund balance and statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1996. However, we expressed an adverse opinion on FIA's CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. As reported in Finding 12 under our internal control structure objective, our audit disclosed a material weakness in that

FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Family Independence Agency and Michigan Commission for the Blind federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of FIA's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 12 findings and 19 corresponding recommendations. FIA's preliminary response indicated that FIA has complied or will comply with the 19 recommendations.

FIA had complied with 7 of the 15 prior audit recommendations included within the scope of our current audit. The other 8 recommendations are repeated or rewritten in this audit report.

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December 10, 1998

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
and
Ms. Candace Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons and Ms. Sorensen:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency and Michigan Commission for the Blind federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, on the financial schedules, and on the financial statements. This report also contains the Family Independence Agency's financial schedules, the Children's Trust Fund financial statements, and notes to financial schedules and financial statements; supplemental financial schedules; the schedule of questioned costs and the schedule of immaterial noncompliance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Family Independence Agency (formerly called the Department of Social Services) was created by the Executive Organization Act of 1965. Effective April 1, 1996, the Department was renamed the Family Independence Agency (FIA). The FIA director is appointed by the Governor with the advice and consent of the Senate.

FIA's mission is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and adults from abuse, neglect, and exploitation. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients. During most of our audit period, FIA was organized into five administrations:

- Family Services

- Medical Services

- Financial and Internal Control

- Management Resources and Information Systems

- Administration for Legislation, Budget, and Analysis

The Family Services and Medical Services Administrations have primary responsibility for establishing and implementing most grant and services program policies. In addition, the Family Services Administration has oversight responsibility for FIA local offices. The Financial and Internal Control Administration is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports, and for the development of internal control policies and procedures. The Management Resources and Information Systems Administration provides various administrative support functions, including data processing, human resources, office services, and legal liaison with the Department of Attorney General. The Administration for Legislation, Budget, and Analysis performs various legislative liaison, budgetary, policy analysis, staffing and program evaluation, and quality assurance functions.

As of September 30, 1996, FIA had 13,424 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA's expenditures and operating transfers out for fiscal year 1995-96 were

\$8.0 billion. In addition, FIA distributed \$733.2 million in federal nonfinancial assistance (food stamp coupons) in fiscal year 1995-96.

The Children's Trust Fund was created by Act 249, P.A. 1982 (Sections 21.171 and 21.172 of the *Michigan Compiled Laws*), to receive funds for the prevention of child abuse and neglect. The State Child Abuse and Neglect Prevention Board was created by Act 250, P.A. 1982 (Sections 722.601 - 722.613 of the *Michigan Compiled Laws*), to administer the Children's Trust Fund and to prevent child abuse and neglect.

The State Child Abuse and Neglect Prevention Board consists of 15 members. Ten members are appointed by the Governor. Other members include the Superintendent of Public Instruction and the directors of the Family Independence Agency (formerly Department of Social Services), Department of Community Health (formerly Departments of Mental Health and Public Health), and Department of State Police or their designees.

During fiscal year 1995-96, the Governor issued Executive Orders 1996-1 and 1996-2, which transferred certain FIA functions to different departments effective April 1, 1996 and May 15, 1996, respectively. These transfers included the Medical Services Administration to the Department of Community Health and various licensing and regulatory functions to the Department of Consumer and Industry Services. FIA provided fiscal services to the Departments of Community Health and Consumer and Industry Services through September 30, 1996 because the fiscal year 1995-96 appropriations for the Medical Services Program and the Bureau of Regulatory Services remained within FIA's appropriation structure. Executive Order 1996-2 transferred the Commission for Disability Concerns and the Michigan Commission for the Blind from the Michigan Jobs Commission to FIA. The Department of Consumer and Industry Services provided fiscal services to FIA for federal programs within the Michigan Commission for the Blind through September 30, 1996.

During fiscal year 1994-95, the Governor issued Executive Order 1995-2. This order transferred the Weatherization and Community Services Block Grant programs from the Michigan Jobs Commission to FIA effective April 5, 1995.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) and Michigan Commission for the Blind federal programs within the Department of Consumer and Industry Services had the following objectives:

1. To assess the adequacy of FIA's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess FIA's compliance with both State and federal laws and regulations that could have a material effect on FIA's financial schedules, its financial statements, or any of its major federal financial assistance programs.
3. To audit FIA's financial schedules and its Children's Trust Fund financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Our audit objective for the assessment of the internal control structure included an evaluation of FIA's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the financial and other records of the Family Independence Agency and Michigan Commission for the Blind federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered FIA's internal control structure policies and procedures for its federal financial assistance programs and assessed FIA's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A -128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the prior audit findings and questioned costs and FIA's corrective action plan. FIA's major programs are identified on the schedules of federal financial assistance.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 12 findings and 19 corresponding recommendations. FIA's preliminary response indicated that FIA has complied or will comply with the 19 recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In addition, the Single Audit Act of 1984 requires FIA to prepare and submit to its federal cognizant agency and applicable grantor agencies a plan for corrective action.

FIA had complied with 7 of the 15 prior audit recommendations included within the scope of our current audit. The other 8 recommendations are repeated or rewritten in this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Background: Family Independence Agency (FIA) local office staff, through a decentralized process, are to determine and document client eligibility for FIA's numerous assistance and services programs. Also, FIA maintains numerous complex computer systems and files that facilitate assistance distribution to eligible clients or reimbursements to providers for services provided to these clients. In addition, FIA uses other Statewide payment systems for personnel and payroll transactions, administrative expenses, and certain provider reimbursements.

Audit Objective: To assess the adequacy of FIA's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the internal control structure disclosed two material weaknesses. FIA expenditures authorized through the Unified Child Day Care (UCDC) payment system did not reconcile to expenditures recorded on the Michigan Administrative Information Network (MAIN). Also, FIA's internal control procedures did not ensure that Children's Trust Fund (CTF) transactions were properly accounted for on MAIN.

Our assessment also disclosed other reportable conditions in FIA's internal control structure in the areas of expenditures charged to inappropriate Federal grants, case file internal control and documentation, cash management standards, expenditure processing, distribution of child support payments and application of locating procedures by child support specialists, adoption subsidy payments to ineligible children and verification of data entered into internal systems, reconciliation of reported program expenditures, provision of Weatherization services in accordance with federal regulations, subrecipient monitoring, maintenance of effort calculations, and processing of personnel and payroll transactions.

In addition, our assessment disclosed that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

MAIN is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including the Family Independence Agency, is affected to varying degrees by MAIN.

Because FIA's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in FIA to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

FINDING

1. Reconciliation of Accounting Records and Program Records

FIA's internal control structure did not provide for a reconciliation between State accounting records and FIA payment and program systems and internal accounting records. Our review of accounting and program records disclosed:

- a. FIA expenditures authorized through the UCDC payment system did not reconcile to expenditures recorded on MAIN.

MAIN was designed to allow users to assign a unique accounting code (agency code 3) to record expenditures for each federal program. Also, MAIN and UCDC were designed to interface* based on the UCDC eligibility/reason code which represents the client's type of need for day care services. Clients may have multiple needs that would be funded from various federal grants. Therefore, to properly account for UCDC authorized expenditures, each eligibility/reason code should have a unique agency code 3.

* See glossary on page 112 for definition.

We noted that payments to providers for clients with multiple eligibility/reason codes were inappropriately coded to a single agency code 3 because of a programming error and that FIA had not reconciled MAIN and UCDC. Therefore, we totaled and compared the eligibility/reason codes on the UCDC history file for fiscal years 1995-96 and 1994-95 and corresponding agency code 3 totals recorded on MAIN. We noted that expenditures recorded on MAIN exceeded UCDC payment system authorizations by \$76,227 and \$4,117,951 in fiscal years 1995-96 and 1994-95, respectively. Also, the inappropriate eligibility/reason coding recorded on MAIN, which was used to draw federal funds, resulted in inaccurate draws for several federal programs. In addition, we estimate that expenditures of approximately \$19.1 million reported on FIA's schedule of federal financial assistance for various federal programs were misclassified (see schedule of questioned costs items 3, 4, 13, 21, 27, and 40).

In our financial related audit of the Automated Payment Systems, Department of Social Services, for the period October 1, 1990 through March 31, 1993, we recommended that FIA reconcile its payment systems with MAIN. FIA agreed with our findings but did not initiate effective corrective action.

- b. FIA sometimes charged expenditures to an inappropriate federal grant. Our test of federal grant expenditure transactions disclosed:
 - (1) In fiscal year 1995-96, FIA incorrectly reduced expenditures of \$598,968 in the federal Weatherization grant rather than the federal Low-Income Home Energy Assistance Program (LIHEAP) grant when establishing an advance for funds paid to contractors (see schedule of questioned cost items 5 and 19).
 - (2) In fiscal year 1995-96, FIA incorrectly charged a LIHEAP contract payment of \$21,445 to the Weatherization grant. FIA established agreements with contractors and funded the residential Weatherization Program activities with LIHEAP grant funds (see schedule of questioned costs items 6 and 20).

- (3) FIA incorrectly charged Title IV-A Emergency Housing Assistance Program (EHAP) to the Title IV-F Job Opportunities and Basic Skills Training (JOBS) program. EHAP expenditures totaling \$55,640 and \$69,000 in fiscal years 1995-96 and 1994-95, respectively, were incorrectly coded in FIA's Administrative Expense System (see schedule of questioned cost items 11 and 17).
- (4) FIA incorrectly reversed the account coding on a Title IV-A Child Care payment document. As a result, FIA undercharged Title IV-A Child Care and overcharged Education Designed for Gainful Employment (EDGE) program expenditures totaling \$5,959 in fiscal year 1994-95 (see schedule of questioned cost items 11 and 15).

FIA's failure to reconcile various accounting and program records prevented FIA from identifying payment or reporting errors within the normal course of business. As a result, expenditures authorized sometimes did not agree with actual expenditures and expenditures were sometimes charged to inappropriate federal grants.

RECOMMENDATIONS

We recommend that FIA implement internal control procedures to:

- (a) Ensure that expenditures authorized through the Unified Child Day Care payment system are reconciled to expenditures recorded on MAIN.
- (b) Provide for a reconciliation between accounting records and program records to ensure that expenditures are charged to the appropriate federal grant.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and responded that it will comply.

FINDING

2. Case File Internal Control and Documentation

FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures and for authorizing payments to vendors. This noncompliance often resulted in inaccurate or inappropriate public assistance benefits that were not detected.

Our review of 458 randomly selected case files disclosed:

- a. Fifty-nine (12.9%) of the 458 grant or service case files did not contain key documents required to support payments to or on behalf of the clients. As a result, we reported questioned costs relating to 41 cases (see schedule of questioned costs items 2, 9, 14, 21, 22, 23, 24, 25, 28, 29, 35, 36, and 37). FIA identified and reported questioned costs relating to 2 cases through the quality assurance process. For the remaining 16 cases, other case file documentation corroborated information that would have been reported on the key documents needed to substantiate the propriety of payments made.
- b. Documentation relating to initial eligibility determination or redetermination was not complete for 19 (7.1%) of 266 cases.

An assistance application/redetermination form (FIA-1171), child day care review record (FIA-4576), or rehabilitation services eligibility certification was required for 266 of our sample grant cases. Documentation for 7 of the 266 cases was not complete, e.g., the eligibility determination was not documented or the caseworker did not sign and date the form. In addition, 12 of the 266 cases did not contain the required FIA-1171 or FIA-4576 to document continued eligibility.

- c. Local office staff did not adhere to FIA policies and/or properly determine grant or service needs for 35 of the case files we sampled. This resulted in inaccurate public assistance benefits for 33 (7.2%) of the 458 case files we sampled. As a result, we reported questioned costs relating to 19 cases (see schedule of questioned costs items 1, 3, 10, 12, 24, 25, 26, 30, 32, 34, 38,

and 39). FIA identified and reported questioned costs relating to 14 cases through its quality assurance process.

- d. One (9.1%) of 11 day care case files did not contain a required protective services file clearance check form (FIA-4661) for aides providing day care. FIA Services Manual item 504 requires a protective services file clearance check of local office records and FIA's Central Registry of child abuse cases to be completed for all day care aides prior to the aide being licensed and eligible for reimbursement. If the clearance check indicates that the applicant is on the Central Registry, the county Protective Services Unit must review the record to determine if the prospective provider was a perpetrator^{*}. A perpetrator would be ineligible to provide day care services.
- e. FIA staff did not adhere to federal regulations in 10 cases sampled for services funded by the Rehabilitation Services - Vocational Rehabilitation Grants to States. Documentation relating to the client's individual written rehabilitation program (IWRP) and the client's general health appraisal was not complete and/or timely in 8 (80.0%) of 10 cases.

The IWRP is required to document the rehabilitation plan for the client, including services and benefits available and signatures of those parties required to participate in the plan. We noted 7 cases in which the IWRP was not complete, e.g., the client's view of the goals and objectives was not documented, comparable services and benefits available under other programs were not documented, and the counselor or the client did not sign the IWRP.

In addition, each client's IWRP is to be reviewed annually. We noted 3 cases in which the IWRP reviews had not been completed and were at least 18 months late at the time of our review, and 2 cases in which the review was completed 4 months late. Further, 2 case files did not contain documentation that indicated whether general health appraisals of the clients were completed or completed on a timely basis. One case file did not contain the required

^{*} See glossary on page 112 for definition.

medical examination report (MDL-157) and another case file contained an MDL-157 that was not completed on a timely basis.

We recognize that FIA has taken steps to improve internal controls over public assistance expenditures. However, FIA needs to continue its efforts to improve controls as the impact of these reported weaknesses is significant based on the approximately \$8.0 billion expended annually on public assistance during our audit period.

RECOMMENDATION

We recommend that FIA continue to review and evaluate appropriate methods to help ensure that local office staff comply with established case file internal control procedures.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that it will comply as it continues to implement improvements in this area. FIA informed us that it now distributes audit reports to each local office to be used as a management tool to inform staff of the need to follow proper internal control procedures related to file documentation.

FINDING

3. Cash Management

FIA's internal control structure did not provide for compliance with State and federal cash management standards. We noted numerous exceptions related to FIA's timing and methodology used to draw federal funds and the reporting of incomplete or inaccurate information to the Michigan Department of Treasury. As a result of these exceptions, we estimate that the State did not recover approximately \$513,000 in interest income, incurred additional lost interest income of approximately \$105,000, and incurred an interest liability to the federal government of approximately \$114,000.

In fiscal year 1993-94, the federal Cash Management Improvement Act of 1990 (CMIA) was implemented for federal financial assistance programs funded for \$20

million or more. Compliance with the CMIA provides for an annual review of actual to prescribed drawdowns and a settlement of interest due from or to the U.S. Department of Treasury. The drawdown of other federal funds was to be made in accordance with federal general cash management requirements, which do not provide for an annual settlement of interest costs. Also, Section 18.1395(5) of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1210.06 require State departments to obtain federal funds when they become available.

Our review of FIA's cash management practices disclosed:

- a. FIA's requests to draw federal funds for federal programs were often not made on a timely basis. The timely draw of federal funds is important because late draws for programs not subject to the CMIA result in lost interest income to the State and early draws for any program may result in a liability to the federal government. We estimated that the State lost approximately \$105,000 and is eligible for approximately \$84,000 in interest income because of the late draws:
 - (1) FIA did not request federal funds for which it was eligible for the Child Care for Families At-Risk of Welfare Dependency Program until August 1996 for fiscal year 1995-96, although federal funds were available in June 1996. Also, FIA did not request federal funds for which it was eligible until April 1995 for fiscal year 1994-95, although federal funds were available in January, February, and March 1995. Federal Reporting Unit staff informed us that the draw requests were completed as soon as FIA had federal financial reports documenting funds expended. FIA's delayed draw requests resulted in lost interest income to the State of approximately \$73,000 and \$32,000 in fiscal years 1995-96 and 1994-95, respectively, based on the State Treasurer's Common Cash rate of return, as this program was not subject to the CMIA.
 - (2) FIA often delayed the request for federal funds for Adoption Subsidy expenditures because supporting expenditure data was reported as not being available on a timely basis. For fiscal year 1994-95, we determined that FIA had appropriate data available to permit the timely determination

of program expenditures and to draw federal funds. Also, FIA did not report these delayed draws to the Michigan Department of Treasury for inclusion in the State's CMIA Annual Report. We estimate that the State is eligible to receive interest income of approximately \$84,000 based on the CMIA interest rate (see schedule of questioned costs item 33).

- b. FIA frequently did not comply with prescribed CMIA methods for determining the amount of federal funds to be drawn, which resulted in inappropriate draws. We estimate that the State may owe the U.S. Department of Treasury \$114,000 and is eligible to receive interest of approximately \$429,000:

- (1) FIA requested Title IV-D Child Support Enforcement funds based on a method other than 1/26th of the annual award amount as required.

FIA requested funds per pay period during fiscal year 1994-95 but for amounts less than the prorated share of its award amounts as required by the CMIA agreement. Based on our review of expenditures for fiscal year 1994-95, we estimated that the State is eligible to receive interest of approximately \$424,000 based on the CMIA interest rate. Also, FIA did not report these variances to the Michigan Department of Treasury for inclusion in the State's CMIA Annual Report (see schedule of questioned costs item 18).

- (2) FIA requested Title IV-F JOBS program funds biweekly based on a prorated share of the federal program quarterly award amount rather than the previous quarter's actual administrative expenditures as required. Based on our review of JOBS program expenditures for the quarter ended September 30, 1996, we estimate that the State may owe the U.S. Department of Treasury approximately \$26,000, based on the CMIA interest rate (see schedule of questioned costs item 17).

- (3) FIA did not draw LIHEAP funds based on the previous quarter's actual administrative expenditures as required by the CMIA agreement. FIA informed us that it used the actual expenditures from the quarter preceding the prior quarter's expenditures because the amount of the prior quarter's actual expenditures was not available. Based on our

review of fiscal year 1995-96 LIHEAP program expenditures, we estimate that the State may owe the U.S. Department of Treasury approximately \$7,000 based on the CMIA interest rate. Based on our review of fiscal year 1994-95 LIHEAP expenditures, we estimate that the State is eligible to receive interest of approximately \$5,000 based on the CMIA interest rate (see schedule of questioned costs item 20).

- (4) FIA was required to draw Aid to Families With Dependent Children - Emergency Assistance program funds based on two types of expenditures (administrative and benefits), both of which had their own drawdown methodology. FIA drew funds using only the administrative methodology, although benefit payments were made to or on behalf of recipients. FIA indicated that the benefit amount was not available on a timely basis to enable the request of federal funds using the appropriate draw methodology.

Also, FIA requested Emergency Assistance draws for fiscal year 1995-96 based on prior quarter expenditures rather than 1/26th of the grant award as required. We estimate that FIA may owe the U.S. Department of Treasury approximately \$81,000 based on the CMIA interest rate (see schedule of questioned costs item 12).

We reported a similar finding in the prior audit. In response to that audit finding, FIA met with the Michigan Department of Treasury to request interest adjustments for fiscal year 1993-94. FIA provided the Michigan Department of Treasury with documentation regarding the interest to be claimed. The Michigan Department of Treasury submitted the request in its annual report to the U.S. Department of Treasury in December 1997.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT FIA ENHANCE ITS INTERNAL CONTROL STRUCTURE TO PROVIDE FOR COMPLIANCE WITH STATE AND FEDERAL CASH MANAGEMENT STANDARDS.

WE ALSO AGAIN RECOMMEND THAT FIA, IN CONSULTATION WITH THE MICHIGAN DEPARTMENT OF TREASURY, ANALYZE ITS DRAWS OF FEDERAL

FUNDS TO DETERMINE PROPER SETTLEMENT OF INTEREST DUE TO OR FROM THE U.S. DEPARTMENT OF TREASURY.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and responded that it has complied by implementing better methods for tracking federal grant awards and improving procedures for verifying the availability of funds.

FINDING

4. **Expenditure Processing**

FIA's internal control structure sometimes did not ensure that expenditures were properly approved and that proper documentation was maintained to support expenditures processed.

Our tests of expenditure transactions disclosed:

- a. FIA staff did not document their approval of 55 (8.4%) of 654 expenditure transactions tested.

MAIN is an online electronic data processing system. To maintain documentation of proper segregation of duties and approval, FIA requires appropriate personnel to sign -a screen print of the MAIN transaction. However, FIA did not maintain documentation that it properly segregated accounting and approval functions to help prevent unauthorized execution of transactions.

- b. FIA overpaid an EDGE contractor \$85,400 in fiscal year 1994-95 for multiple units of service provided in October, 1994. The contract defined a "unit of service" as one participant who completed up to one calendar month of scheduled hours of instruction. We determined that the contract completion date was October 7, 1994; therefore, the participants could not have received the hours of training needed to complete the appropriate units of service in accordance with the contract (see schedule of questioned costs item 16).

- c. FIA did not maintain supporting documentation for 17 (2.6%) of 654 expenditure transactions tested.

Various federal regulations and Section 18.1285 of the *Michigan Compiled Laws* require FIA to maintain records to support the proper recording of expenditures.

We questioned costs relating to 1 of the 17 transactions (see schedule of questioned costs item 7).

RECOMMENDATION

We recommend that FIA enhance its internal control structure to help ensure that expenditures are properly approved and that proper documentation is maintained to support the expenditures processed.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that it will comply.

FINDING

5. Title IV-D Child Support Enforcement

FIA's internal control structure did not ensure that all child support payments were properly distributed. As a result, amounts applied to arrearages, reimbursements, refunds and child support recovery of assistance grants were misstated. Also, FIA child support specialists sometimes did not comply with established internal control procedures regarding locating absent parents and following up referrals to the prosecutor. As a result, support specialists did not attempt to locate absent parents for extended periods of time.

Our review of child support enforcement transactions disclosed:

- a. FIA's internal control structure did not ensure that child support payments received on a weekly basis were accurately equated to monthly payments for proper distribution.

Title 45, Part 302, section 51 of the *Code of Federal Regulations (CFR)* and Office of Child Support (OCS) policy item 315 require that FIA distribute, to

the custodial parent, the first \$50 of current month child support collections. The State will retain other collections up to the current month's Aid to Families With Dependent Children (AFDC) grant amount, and any remainder if the noncustodial parent is in arrears for past AFDC grants. Also, FIA may convert collections to a monthly amount and may be required to convert when a child support order is to be paid other than monthly.

FIA incorrectly distributed child support collections for 2 of 9 sampled cases because arrearage payments were calculated on a weekly rather than a monthly basis. When child support collections are distributed on a weekly rather than a monthly basis, arrearage collections may not be appropriate if a weekly payment was missed. Weekly collections in excess of the required amount must first be applied to weekly payments within the same month before being accounted for as an arrearage collection. Thus, calculating distributions on a weekly rather than a monthly basis resulted in payments that were credited toward reducing arrearages, rather than being credited to the custodial parent for current collections, to the State for current month AFDC payments, and to the custodial parent for any collection amount in excess of AFDC for the current month.

As a result, noncustodial arrearages, reimbursements, and refund payments to the 2 custodial parents were understated and child support collections retained by the State were overstated.

- b. FIA child support specialists sometimes did not comply with established internal control procedures for conducting sufficient efforts to locate absent parents and for following up referrals made to the prosecutor.

Federal regulation 45 *CFR* 303.3 and OCS policy item 410 require review and repeated attempts to locate absent parents, using all available locating resources, until the absent parent is located or the Title IV-D case is closed. In addition, if action to establish paternity or secure support is suspended or dismissed despite a determination on the location of the absent parent, the support specialist is required to enter the date of any anticipated change in circumstances in the electronic reminder file in order to review the case at that time to determine the appropriate course of action. Further, when a

noncustodial parent is located, and a referral made to the prosecutor or Friend of the Court, OCS policy item 200 states that the support specialists must follow up periodically on the status of the referral. If the prosecutor rejects or dismisses the complaint because of an inability to locate the absent parent, OCS is mandated to undertake additional location services.

Our test of 34 case files disclosed the following compliance errors:

- (1) For 4 cases, the child support specialist did not make sufficient attempts to locate absent parents and perform follow-up actions to locate the noncustodial parent(s). The last documented activity in these cases ranged from April 16, 1992 to October 5, 1995. In one case, we were informed that there was not enough information to properly locate the noncustodial parent and the support specialist should have closed the Title IV-D case after the last date of activity.
- (2) For 2 other cases, the child support specialist did not follow up on the status of the referral to the prosecutor's office. In addition, the support specialist did not use all locator sources to locate the noncustodial parent after the referral was made. The last documented activity in the cases was July 16, 1993 and September 25, 1995.

Unless attempts to locate absent parents and follow-up are performed, FIA reduces its ability to locate noncustodial parents who may be financially able to contribute to their child's support.

RECOMMENDATIONS

- (a) We recommend that FIA revise its internal control structure to help ensure that weekly child support payments are properly distributed.
- (b) We recommend that FIA child support specialists comply with established internal control procedures regarding locating absent parents and following up referrals to the prosecutor.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and responded that it will comply. FIA indicated that it has updated the policy for all Friends of the Court regarding monthly conversion, application of support collections, and distribution of child support payments. FIA also indicated that several improvements to OCS locating procedures are in progress and a more current information data base is available to all support specialists at their computer workstations.

FINDING

6. Adoption Subsidy Payments

FIA's internal control structure did not ensure that adoption subsidy payments were authorized only for eligible children. Also, FIA's internal control structure did not ensure that data entered into the adoption subsidy payment system was verified for accuracy and completeness.

FIA makes payments to adoptive parents to subsidize the cost of adoption and, in certain cases, the cost of care for "hard to place" children. Payments are processed through FIA's adoption payment system. Our review of adoption subsidy payment transactions disclosed:

- a. FIA did not maintain controls to prevent the processing of adoption subsidy payments for ineligible children.

FIA employees, who are authorized to approve adoption subsidy payments, also had the ability to add ineligible children to the payroll. FIA staff prepare the adoption subsidy payroll notice form (FIA-3755), submit it for processing, and then retain the processed form. Sound internal control procedures should provide for supervisory review and approval of the FIA-3755 and procedures to prevent the resubmission of FIA-3755's.

- b. Effective September 1996, FIA no longer produced output reports to verify additions, changes, or deletions to the adoption subsidy payment system.

FIA often did not document, on the FIA-3755, if and when it entered adoption subsidy payment information into its payment system. For our audit period,

we reviewed 44 case files for documentation of entry into the adoption subsidy payment system. We determined that FIA did not initial and date the FIA-3755 in 41 of the 44 case files. Information processed on the adoption subsidy payment system was subsequently transferred to MAIN to process the payroll payment.

FIA's inability to ensure that properly authorized payments were made for eligible children, that data entered into the adoption subsidy payment system was verified, and that it documented if and when data was entered into the system reduced its assurance that the integrity of the monthly payroll was maintained.

RECOMMENDATIONS

- (a) We recommend that FIA implement internal control procedures to help ensure that adoption subsidy payments are authorized only for eligible children.
- (b) We recommend that FIA implement internal control procedures to help ensure that data entered into the adoption subsidy payment system is verified for accuracy and completeness.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and responded that it will comply. FIA implemented a procedure that requires two signatures for any adoption subsidy payroll notice transactions. FIA is developing documents to ensure that data entered into the adoption payment system is appropriately monitored.

FINDING

7. Reconciliation of Reported Program Expenditures

FIA's internal control structure did not ensure that program expenditures reported on federal reports reconciled to amounts reported in MAIN and to other internal records.

Office of Management and Budget (OMB) Circular A-128 requires that federal financial reports contain information that is supported by the books and records

from which the basic financial statements have been prepared. Our review of federal program reports and accounting records disclosed:

- a. FIA's internal control structure did not ensure that Disability Determination Services (DDS) Program expenditures reported in the schedule of federal financial assistance and federal program reports were supported by amounts reported in MAIN:

- (1) FIA-reported DDS Program expenditures on its schedule of federal financial assistance were \$1.9 million less than and \$2.2 million greater than amounts reported in MAIN for fiscal years 1995-96 and 1994-95, respectively.

FIA prepared the schedule using information from its internal Administrative Expense System reports and federal financial reports. Although FIA reconciled the Administrative Expense System to MAIN, variances between the schedule and MAIN still existed.

- (2) FIA-reported expenditures on the DDS Program financial report (form SSA-4513) were approximately \$1.8 million more than amounts reported in MAIN for fiscal year 1995-96. In addition, for the quarter ended June 30, 1996, FIA-reported expenditures on the SSA-4513 were approximately \$909,000 less than the amounts reported in MAIN.

We determined that DDS Program staff completed the SSA-4513 independent of FIA accounting staff. In addition, program and accounting staff have not agreed upon the source of information to be used to complete the SSA-4513.

FIA informed us that it did not receive indirect cost amounts until after the fiscal year was closed and, therefore, those costs could account for the fiscal year difference between MAIN and the SSA-4513.

- b. FIA's internal control structure did not provide for a reconciliation of outstanding Food Stamp claims and collection amounts reported to the U.S. Department of Agriculture with FIA's automated records. Also, FIA did not

reconcile reported Food Stamp claims and collection summary information with supporting client case files during our audit period.

FIA is required to maintain a system to identify and compute Food Stamp overissuances resulting from agency errors, inadvertent household errors, or intentional program violations. FIA is also required to maintain systems to support unpaid claims totals and repayment activities. FIA utilizes the Statewide Automated Recoupment System (ARS) to meet these requirements.

Federal regulations require FIA to submit, on a quarterly basis, a status of claims against households form (FCS-209), which details the establishment and collections of claims against households. FIA prepared the FCS-209 based on ARS information that was detailed and summarized differently at four levels (district office, area, county, and State). An Office of Inspector General (OIG), U.S. Department of Agriculture, audit of Food Stamp Claims Activity, for the period October 1, 1995 through June 30, 1996, determined that information reported on the FCS-209 could not be reconciled with the various ARS reports. OIG also determined that outstanding claim amounts and quarterly collection activities reported at the district level were not supported by information contained in Food Stamp recipient case files.

OIG recommended that FIA complete a reconciliation of the various ARS reports that are supposed to support amounts reported on the FCS-209. OIG also recommended that FIA perform periodic checks of its reporting system to ensure that the information contained in monthly and quarterly reports was accurate and reconcilable to supporting Food Stamp recipient case files. In response, FIA agreed with the recommendations and formed a work group to develop system revisions. However, FIA has not pursued corrective action since development of the system service request. Although FIA developed system revisions and submitted a system service request, FIA had not processed and implemented the system revisions.

RECOMMENDATION

We recommend that FIA revise its internal control structure to help ensure that program expenditures reported on federal reports reconcile to amounts reported in MAIN and to other internal records.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that it will comply.

FINDING

8. Weatherization Services

FIA's internal control structure did not ensure that dwellings previously weatherized were only re-weatherized in accordance with federal regulations.

Federal regulation 10 *CFR* 440.18(e)(2) prohibits expending weatherization funds on dwellings previously weatherized with grant funds, unless damaged by fire or flood and repair of the damage was not paid by insurance.

FIA's monitoring process of subgrantees' weatherization projects did not determine whether dwellings were previously weatherized. Also, the State Plan and subgrantees' contracts did not include requirements that subgrantees comply with all federal requirements pertaining to the re-weatherization of dwellings. Without procedures to identify the existence and circumstances surrounding any previously weatherized dwellings, FIA cannot ensure that all dwellings were weatherized in compliance with federal regulations (see schedule of questioned costs item 5).

RECOMMENDATION

We recommend that FIA enhance its internal control structure to help ensure that dwellings previously weatherized are only re-weatherized in accordance with federal regulations.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that it has implemented procedures to ensure compliance with regulations.

FINDING

9. Subrecipient Monitoring

FIA's internal control structure did not provide for the timely review of subrecipient audit reports and did not ensure that audit report information requiring follow-up was accurately recorded.

State governments that provide \$25,000 or more of federal assistance in any fiscal year to a subrecipient must determine if the subrecipient complied with the Single Audit Act and the applicable audit requirements of OMB Circulars A-128 and A-133. Our review of subrecipients disclosed:

- a. FIA did not review OMB Circulars A-128 and A-133 subrecipient audit reports on a timely basis. To comply with the Single Audit Act of 1984, FIA must ensure that subrecipient audit reports are reviewed and action is taken to correct material instances of noncompliance within six months after receipt.

As of November 1, 1996, FIA had not reviewed 1 of 6 sampled OMB Circular A-128 audit reports and 1 of 7 sampled A-133 audit reports. These reviews were an average of 3.5 months past due. Also, FIA completed its review of two other sampled A-128 audit reports an average of three months late (see schedule of questioned costs item 42).

- b. FIA did not maintain an accurate system for recording the receipt of subrecipient audit reports and audit information requiring follow-up:
 - (1) We reviewed FIA's log which documented the receipt of 675 subrecipient audit reports subject to review during our audit period. FIA did not document the receipt date for three audit reports. Also, FIA documented that it received six other audit reports prior to the subrecipients' fiscal year-end. Subsequent to our review, FIA used information outside of its tracking system and correctly identified appropriate receipt dates for the six reports.
 - (2) We reviewed FIA's audit report log for monitoring the disposition of reviewed reports. This log identified questioned costs that were not reported as questioned costs in our reports.

RECOMMENDATIONS

- (a) WE AGAIN RECOMMEND THAT FIA REVIEW OMB CIRCULAR A-128 AND A-133 AUDIT REPORTS ON A TIMELY BASIS.
- (b) We recommend that FIA ensure that audit report information requiring follow-up is accurately recorded.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and responded that it has completed the review of the reports noted in the findings. In addition, FIA indicated that great efforts have been made to ensure that subrecipient audit reports with noncompliance findings and questioned costs are reviewed timely. FIA also responded that it has revised the audit logs to include only the questioned costs as identified in the audit report.

FINDING

10. Maintenance of Effort (MOE) Calculations

FIA's internal control structure did not ensure timely completion of the Title IV-F JOBS MOE calculation and did not provide for complete written procedures for preparing the calculation.

Federal regulation 45 *CFR* 250.72(b) states:

States must spend no less than the total of State and local expenditures incurred in fiscal year 1986 for training, employment and education programs which had a defined purpose of preventing welfare dependency or potential welfare dependency.

Also, federal regulation 45 *CFR* 92.41(b)(4) requires the State to submit annual federal reports 90 days after the grant year. Although a federal report is not specifically required for the JOBS MOE calculation, the calculation must be completed on a timely basis to determine compliance with federal regulation 45 *CFR* 250.72(b).

In response to a similar finding in our prior audit, FIA implemented a schedule for the completion of the MOE calculations for all major federal programs. However, the MOE calculation for the JOBS Program is not scheduled to be prepared until 12 months after the end of the grant year. Although FIA completed the calculations as scheduled, the JOBS MOE completion date was not in timely compliance with federal reporting deadlines established for annual reports.

Also, FIA had not yet developed written procedures for completing the JOBS MOE calculation. During our review of the fiscal year 1994-95 JOBS MOE, we noted that, because of the lack of written procedures, FIA staff did not have complete knowledge regarding the source of information or how to generate information used in prior JOBS MOE calculations. In addition, the FIA staff person responsible for the JOBS MOE calculation has since left FIA employment. Although we noted no errors in the JOBS MOE calculation, the lack of written procedures could result in untimely and inaccurate MOE calculations that could reduce federal financial participation rates.

RECOMMENDATION

We recommend that FIA enhance its internal control structure to help ensure timely completion of the Title IV-F JOBS MOE calculation and to provide for complete written procedures for preparing the calculation.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that no corrective action is needed as the Title IV-F JOBS program has been terminated.

FINDING

11. Personnel and Payroll Transactions

FIA did not comply with prescribed Personnel-Payroll System for Michigan (PPRISM) internal control procedures for preparing time and attendance reports. Also, FIA did not maintain effective internal controls over the processing of

personnel and payroll transactions. Our review of FIA's timekeeping procedures disclosed:

- a. FIA's internal control structure did not ensure that biweekly time and attendance summaries (A-684's) and employee time and attendance reports were prepared and certified in accordance with the PPRISM Procedures Manual and FIA procedures.

PPRISM Procedures Manual section 7.3 states that only authorized persons may prepare and certify A-684's. FIA Administrative Handbook item 633.3 states that it is the responsibility of the timekeeper to ensure that documentation from which hours were posted to A-684's was appropriate. FIA Administrative Handbook item 633.3 also states that each page of the A-684's must be signed by the appropriate certifying authority.

Our analysis of 60 payroll transactions disclosed that unauthorized individuals prepared and signed 15 (25%) of 60 A-684's and that unauthorized individuals certified 22 (37%) of 60 A-684's. In 10 of these 37 instances, both unauthorized preparers and certifiers completed the A-684's. In addition, we identified 2 instances in which leave reported on the time sheet did not agree with leave reported on the A-684. For 1 of the exceptions, an unauthorized preparer and certifier completed the A-684.

We noted similar findings in our three prior audits. In response, FIA concurred and initiated corrective action, including random reviews of A-684's for proper signatures. However, this corrective action was not effective.

- b. Designated PPRISM control personnel and transaction operators often had incompatible duties.

PPRISM Procedures Manual section 2.3 states that the control personnel responsible for reconciling the transaction control log should not have authorization to enter transactions into the system. Also, section 2.1.2 states that transaction operators may make a PPRISM inquiry on only themselves.

Our review of PPRISM control and activity reports disclosed:

- (1) Nineteen (76%) of 25 staff, identified in local office survey responses as control personnel, were authorized to and did process PPRISM transactions. Also, 10 control personnel or transaction operators responded that they had processed personal PPRISM transactions.
- (2) Staff at 2 (20%) of 10 county offices responded to the survey that the PPRISM transaction control log was reconciled by someone other than the control personnel and that the individuals were authorized to process PPRISM transactions.

These internal control weaknesses increase the risk that improper personnel and payroll transactions could be entered into PPRISM and not be detected in the normal course of operations.

RECOMMENDATIONS

- (a) WE AGAIN RECOMMEND THAT FIA COMPLY WITH PRESCRIBED PPRISM INTERNAL CONTROL PROCEDURES FOR PREPARING TIME AND ATTENDANCE REPORTS.
- (b) We recommend that FIA maintain effective internal controls over the processing of personnel and payroll transactions.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendations and has implemented a new automated payroll system and other procedures to ensure compliance.

FINDING

12. Accounting and Accounts Payable

FIA's internal control procedures did not ensure that CTF transactions were properly accounted for on MAIN and that operating units established appropriate General Fund accounts payable at fiscal year-end.

Our tests of CTF and General Fund transactions disclosed:

- a. Bureau of Accounting staff incorrectly processed 6 of 11 fiscal year 1995-96 CTF grant payment vouchers as prior year transactions. As a result, fiscal year 1994-95 expenditures and liabilities were overstated by \$29,156.
- b. Bureau staff paid a CTF vendor \$4,040 twice for fiscal year 1994-95 services. Also, Bureau staff did not maintain documentation to substantiate two payment vouchers, including a voucher noted in item a., totaling \$13,579.
- c. CTF staff incorrectly established a fiscal year 1994-95 accounts payable based on the remaining balance of a services contract without documenting the estimated unpaid services provided during the fiscal year. As a result, expenditures and liabilities were overstated by \$55,561.
- d. For fiscal year 1995-96, 16 (42%) of 38 General Fund accounts payable transactions included overstatement errors of approximately \$16.2 million and understatement errors of approximately \$8.7 million.
- e. For fiscal year 1994-95, 25 (69%) of 36 General Fund accounts payable transactions included overstatement errors of approximately \$5.7 million and understatement errors of approximately \$5.1 million.

We have reported on FIA's inadequate internal controls over accounts payable in prior audits. In response, FIA agreed with our prior audit recommendations and stated that it had initiated corrective action. However, FIA's corrective action has not been effective. As a result of the errors noted during our current audit pertaining to CTF, we expressed an adverse opinion on the balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995.

RECOMMENDATIONS

We recommend that FIA implement internal control procedures to help ensure that CTF transactions are properly accounted for.

WE AGAIN RECOMMEND THAT FIA IMPLEMENT INTERNAL CONTROL PROCEDURES TO HELP ENSURE THAT OPERATING UNITS ESTABLISH APPROPRIATE GENERAL FUND ACCOUNTS PAYABLE AT FISCAL YEAR-END.

AGENCY PRELIMINARY RESPONSE

FIA agrees with the recommendations and responded that it will comply by advising staff of the appropriate procedures and by providing ongoing guidance of the accounts payable and encumbrance processes throughout the fiscal year. In addition, the Office of Internal Audit will assist in the review of accounts payable and encumbrance carry-forwards established at year-end.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess FIA's compliance with both State and federal laws and regulations that could have a material effect on FIA's financial schedules, its financial statements, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on FIA's financial schedules. However, our assessment did disclose two instances of material noncompliance relating to FIA's financial statements and one major federal program. As reported under our internal control objective, FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN. As a result of FIA's material noncompliance with Act 431, P.A. 1984, as amended (Sections 18.1101 - 18.1594 of the *Michigan Compiled Laws*), in relation to CTF, we expressed an adverse opinion on the CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. Also, FIA's Office of Quality Assurance reviews determined that benefits for federal Food Stamps Program (*Catalog of Federal Domestic Assistance* #10.551) recipients exceeded the tolerable federal mispayment

rate in fiscal year 1995-96. As a result , FIA was sanctioned \$3.4 million (see Note 4a. in the notes to financial schedules and financial statements).

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit FIA's financial schedules and its CTF financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on FIA's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995 and on its CTF statement of revenues, expenditures, and changes in fund balance and statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1996. However, we expressed an adverse opinion on FIA's CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. As reported under our internal control structure objective, our audit disclosed a material weakness in that FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN.

Independent Auditor's Report on
the Internal Control Structure

February 3, 1998

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
and
Ms. Candace Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons and Ms. Sorensen:

We have audited the General Fund financial schedules and the Children's Trust Fund financial statements of the Family Independence Agency as of and for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our reports thereon dated February 3, 1998, which included an adverse opinion on the Children's Trust Fund balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. We have also audited the Family Independence Agency's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated February 3, 1998, which included one instance of material noncompliance relating to one major federal program for the fiscal year ended September 30, 1996.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules and financial statements are free of material misstatement and about whether the Agency complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1996 and September 30, 1995, we considered the Agency's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network in order to determine our auditing procedures for the purpose of expressing our opinions on the Agency's General Fund financial schedules and its Children's Trust Fund financial statements and not to provide assurance on the internal control structure. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the Agency's internal control structure. We also considered the Agency's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Family Independence Agency is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules and financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Public assistance recipient and provider expenditures
- Federal financial participation reporting
- Federal and local government unit revenue
- Nongrant expenditures
- Cash receipts
- General fixed assets

Administrative Controls

General requirements:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable cost/cost principles
- Drug Free Workplace Act

Specific requirements:

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Special reporting
- Special tests
- Subrecipient monitoring

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During each of the fiscal years ended September 30, 1996 and September 30, 1995, the Family Independence Agency expended 99% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Agency's major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the

assertions of management in the financial schedules and financial statements or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 1 through 12.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Family Independence Agency is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the Agency's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules and financial statements being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the Agency's internal control structure and its operation that we considered to be material weaknesses as defined above. Family Independence Agency expenditures authorized through the Unified Child Day Care payment system did not reconcile to expenditures recorded on the Michigan Administrative Information Network. We noted that expenditures recorded on the Michigan Administrative Information Network for two fiscal years exceeded Unified Child Day Care payment system authorizations by a total of \$4.2 million, the amount of funds drawn for several federal programs was inaccurate, and expenditures totaling an estimated \$19.1 million reported on the Family Independence Agency's schedule of federal financial assistance for various federal programs were misclassified (Finding 1.a.). Also, the Family Independence Agency's internal control procedures did not ensure that Children's Trust Fund transactions were properly accounted for on the Michigan Administrative Information Network (Finding 12). As a result, we expressed an adverse opinion on the Children's Trust Fund balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and

actual for the fiscal year ended September 30, 1995. In addition, 3 of 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the Family Independence Agency's financial schedules and its Children's Trust Fund financial statements for the fiscal years ended September 30, 1996 and September 30, 1995, and this report on the internal control structure does not affect our reports thereon dated February 3, 1998.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, CPA
Auditor General

Independent Auditor's Report on
Compliance With Laws and Regulations

February 3, 1998

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
and
Ms. Candace Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons and Ms. Sorensen:

We have audited the General Fund financial schedules and the Children's Trust Fund financial statements of the Family Independence Agency as of and for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our reports thereon dated February 3, 1998, which included an adverse opinion on the Children's Trust Fund balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules and financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Family Independence Agency is the responsibility of the Agency's management. As part of obtaining reasonable assurance about whether the financial schedules and financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules and financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial schedules and financial statements. The results of our tests of compliance disclosed the following material instance of noncompliance, the effects of which have not been corrected in the Children's Trust Fund financial statements for the fiscal years ended September 30, 1996 and September 30, 1995.

The Family Independence Agency's internal control procedures did not ensure that Children's Trust Fund transactions were properly accounted for on the Michigan Administrative Information Network. As a result, expenditures were understated by \$29,156 and overstated by \$117,574 for the fiscal years ended September 30, 1996 and September 30, 1995, respectively. Accounts payable were overstated by \$55,561 and \$84,717 and unreserved fund balance was understated by \$69,634 and \$98,790 as of September 30, 1996 and September 30, 1995, respectively.

We considered this material instance of noncompliance in forming our opinion on whether the General Fund financial schedules and the Children's Trust Fund financial statements for the fiscal years ended September 30, 1996 and September 30, 1995 are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated February 3, 1998 on the General Fund financial schedules. However, this report does affect our report dated February 3, 1998 on the Children's Trust Fund financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Family Independence Agency compiled, in all material respects, with the provisions referred to in the third paragraph of this report and, with respect to items not tested, nothing came to our attention that caused us to believe that the Family Independence Agency had not compiled, in all material respects, with those provisions.

We have also audited the Agency's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests; claims for advances and reimbursements; amounts claimed or used for matching; and subrecipient monitoring that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995. The management of the Agency is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan

and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for the Food Stamps Program disclosed that the Agency did not comply with the federal mispayment rate for fiscal year 1995-96. The Agency's error rate for food stamps issued to ineligible clients or to eligible clients for incorrect amounts exceeded the federal error rate. As a result, the Agency was sanctioned \$3.4 million for fiscal year 1995-96 by the federal government. In our opinion, reducing the mispayment error rate below the federal error rate is necessary for the Agency to comply with requirements applicable to this program.

In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the findings and recommendations, the accompanying schedule of questioned costs, and the accompanying schedule of immaterial noncompliance. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instance of noncompliance with the requirements applicable to the Food Stamps Program referred to in the second previous paragraph and described in Note 4a, the Family Independence Agency complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests; claims for advances and reimbursements; amounts claimed or used for matching; and subrecipient monitoring that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995.

In connection with the audit of the financial schedules of the Agency for the fiscal years ended September 30, 1996 and September 30, 1995 and with our consideration of the Agency's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to a nonmajor federal financial assistance program for the fiscal year ended September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and eligibility requirements that are applicable to those transactions. Also, we have applied procedures to test the Agency's compliance with the following requirements applicable to its federal financial assistance programs, which

are identified in the schedules of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements and the requirements applicable to the nonmajor programs, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Agency's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Family Independence Agency had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the findings and recommendations, the accompanying schedule of questioned costs, and the accompanying schedule of immaterial noncompliance.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Schedules

February 3, 1998

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of General Fund sources and disposition of authorizations of the Family Independence Agency for the fiscal years ended September 30, 1996 and September 30, 1995. These financial schedules are the responsibility of the Family Independence Agency management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Agency are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Family Independence Agency's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Agency or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Family Independence Agency for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting described in Note 1b.

As described in Note 2a, the Family Independence Agency changed its method of accounting for food stamps in fiscal year 1995-96 as a result of implementing Governmental Accounting Standards Board Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance."

Our audit was made for the purpose of forming an opinion on the Agency's financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of General Fund assets and liabilities, schedules of disposition of General Fund authorizations by appropriation unit, and schedules of federal financial assistance, are presented for purposes of additional analysis and are not a required part of the Agency's financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Agency's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Agency's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 3, 1998 on our consideration of the Family Independence Agency's internal control structure and a report dated February 3, 1998 on its compliance with laws and regulations.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Statements

February 3, 1998

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
and
Ms. Candace Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons and Ms. Sorensen:

We have audited the accompanying balance sheet of the Children's Trust Fund, Family Independence Agency, as of September 30, 1996 and September 30, 1995 and the related statement of revenues, expenditures, and changes in fund balance and the statements of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal years then ended. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board management and the Family Independence Agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1b, the accompanying financial statements present only the Children's Trust Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

As described in Finding 12, the Family Independence Agency's internal control procedures did not ensure that Children's Trust Fund transactions were properly accounted for on the Michigan Administrative Information Network. As a result, expenditures were understated by \$29,156 and overstated by \$117,574 for the fiscal years ended September 30, 1996 and September 30, 1995, respectively. Accounts payables were overstated by \$55,561 and \$84,717 and unreserved fund balance was understated by \$69,634 and \$98,790 as of September 30, 1996 and September 30, 1995, respectively.

In our opinion, the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual referred to in the first paragraph for the fiscal year ended September 30, 1996 present fairly, in all material respects, the results of operations of the Children's Trust Fund for the fiscal year then ended on the basis of accounting described in Note 1b.

In our opinion, because of the effects of the matters discussed in the second preceding paragraph, the balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995 do not present fairly the financial position and results of operations of the Children's Trust Fund, in all material respects, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 3, 1998 on our consideration of the Family Independence Agency's internal control structure and a report dated February 3, 1998 on its compliance with laws and regulations.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

FAMILY INDEPENDENCE AGENCY
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30
(In Thousands)

	1996	1995
	<hr/>	<hr/>
REVENUE		
Taxes (health-related, Act 219, P.A. 1987)	\$ 7,528	\$ 8,109
Federal agencies (Notes 2a and 2b)	4,805,331	3,888,841
Local governmental units	86,782	77,128
Services	43	440
Licensing fees	455	453
Medicaid reimbursements	598,654	490,516
Miscellaneous:		
Child support recovery of grants (Note 2b)	163,647	158,431
Other sources	39,395	52,925
Total Revenue	<hr/> \$ 5,701,834	<hr/> \$ 4,676,843
OPERATING TRANSFERS		
Total Operating Transfers	501	655
Total Revenue and Operating Transfers	<hr/> <hr/> \$ 5,702,335	<hr/> <hr/> \$ 4,677,497

The accompanying notes are an integral part of the financial schedules.

FAMILY INDEPENDENCE AGENCY
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30
(In Thousands)

	1996	1995
	<hr/>	<hr/>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 2,380,482	\$ 2,236,647
Budgetary transfers in (out)	(555)	1,576
Balances carried forward (Note 5)	35,650	93,500
Restricted financing sources	5,838,054	4,929,193
Less: Intrafund expenditure reimbursements	(214,574)	(315,214)
	<hr/>	<hr/>
Total	<u>\$ 8,039,057</u>	<u>\$ 6,945,702</u>
 DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers	\$ 8,210,953	\$ 7,128,058
Less: Intrafund expenditure reimbursements	(214,574)	(315,214)
	<hr/>	<hr/>
Net expenditures and operating transfers	<u>\$ 7,996,379</u>	<u>\$ 6,812,844</u>
Balances carried forward:		
Encumbrances	\$ 8,352	\$ 11,198
Restricted revenue - not authorized	33	
Multi-year projects	7,534	24,456
	<hr/>	<hr/>
Total balances carried forward	<u>\$ 15,919</u>	<u>\$ 35,654</u>
Balances lapsed	<u>\$ 63,832</u>	<u>\$ 135,308</u>
Overexpended (Note 6)	<u>\$ (37,074)</u>	<u>\$ (38,104)</u>
Total	<u><u>\$ 8,039,057</u></u>	<u><u>\$ 6,945,702</u></u>

The accompanying notes are an integral part of the financial schedules.

CHILDREN'S TRUST FUND
Family Independence Agency
Balance Sheet
As of September 30

	<u>1996</u>	<u>1995</u>
ASSETS		
Current Assets:		
Equity in Common Cash (Note 7a)	\$ 561,802	\$ 473,920
Other current assets	72,901	80,277
Total Current Assets	\$ 634,703	\$ 554,197
Investments (Note 7a)	6,053,527	5,380,352
Total Assets	<u>\$ 6,688,230</u>	<u>\$ 5,934,549</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 3,075	\$ 41,122
Accounts payable and other liabilities	128,946	184,621
Total Liabilities	<u>\$ 132,021</u>	<u>\$ 225,743</u>
 Fund Balance:		
Reserve for funds held as permanent investments (Note 7b)	\$ 5,917,193	\$ 5,526,747
Unreserved	639,016	182,059
Total Fund Balance	<u>\$ 6,556,209</u>	<u>\$ 5,708,806</u>
Total Liabilities and Fund Balance	<u>\$ 6,688,230</u>	<u>\$ 5,934,549</u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>1996</u>	<u>1995</u>
REVENUES		
Income tax checkoff (Note 7b)	\$ 780,893	\$ 685,708
Investment earnings	446,948	379,369
From federal agencies	852,271	148,229
Other donations	158,145	606,372
Miscellaneous		9,319
Total Revenues	<u>\$ 2,238,257</u>	<u>\$ 1,828,997</u>
EXPENDITURES		
Grants	\$ 1,126,277	\$ 1,233,086
Administration	255,523	274,113
Total Expenditures	<u>\$ 1,381,800</u>	<u>\$ 1,507,200</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 856,456</u>	<u>\$ 321,797</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in - from other funds	\$ 1,941	\$
Operating transfers out - to other funds	(10,994)	(10,300)
Total Other Financing Sources (Uses)	<u>\$ (9,053)</u>	<u>\$ (10,300)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 847,403	\$ 311,497
Fund Balance - Beginning of fiscal year	<u>5,708,806</u>	<u>5,397,309</u>
Fund Balance - End of fiscal year	<u><u>\$ 6,556,209</u></u>	<u><u>\$ 5,708,806</u></u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 1996

Statutory/Budgetary Basis	Budget	Actual	Variance Favorable (Unfavorable)
<hr/>			
REVENUES AND OTHER SOURCES (Note 7c)			
Income tax checkoff		\$ 780,893	
Investment earnings		446,948	
From federal agencies		852,271	
Other donations		158,145	
Miscellaneous			
Operating transfers in		1,941	
Total Revenues and Other Sources	\$ 2,240,198	\$ 2,240,198	\$ 0
<hr/>			
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants	\$ 1,126,277	\$ 1,126,277	\$ 0
Administration	255,523	255,523	0
Operating transfers out	10,994	10,994	0
Total Expenditures, Operating Transfers Out, and Encumbrances	\$ 1,392,794	\$ 1,392,794	\$ 0
<hr/>			
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary basis)	\$ 847,404	\$ 847,403	\$ 0
<hr/>			
FUND BALANCE (GAAP BASIS)			
Beginning balance		5,708,806	
Ending balance (GAAP Basis)		\$ 6,556,209	
<hr/>			

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 1995

<u>Statutory/Budgetary Basis</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES AND OTHER SOURCES (Note 7c)			
Income tax checkoff		\$ 685,708	
Investment earnings		379,369	
From federal agencies		148,229	
Other donations		606,372	
Miscellaneous		9,319	
Operating transfers in			
Total Revenues and Other Sources	<u>\$ 1,819,625</u>	<u>\$ 1,828,997</u>	<u>\$ 9,372</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants		\$ 1,233,086	
Administration		274,113	
Operating transfers out		<u>10,300</u>	
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 1,486,143</u>	<u>\$ 1,517,500</u>	<u>\$ (31,357)</u>
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary basis)	<u>\$ 333,482</u>	<u>\$ 311,497</u>	<u>\$ (21,985)</u>
FUND BALANCE (GAAP BASIS)			
Beginning balance		<u>5,397,309</u>	
Ending balance (GAAP Basis)		<u>\$ 5,708,806</u>	

The accompanying notes are an integral part of the financial statements.

Notes to Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Family Independence Agency (FIA) for the fiscal years ended September 30, 1996 and September 30, 1995. The financial transactions of FIA are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The accompanying financial statements report the financial position and results of operations of the Children's Trust Fund, Family Independence Agency, as of and for the fiscal years ended September 30, 1996 and September 30, 1995. This Fund is a part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *SOMCAFR*.

The footnotes accompanying these financial schedules and financial statements relate directly to FIA and the Children's Trust Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Deposits and Investments, Pension Benefits and Other Postemployment Benefits, Compensated Absences, and Contingencies and Commitments.

During fiscal year 1995-96, the Governor issued Executive Orders 1996-1 and 1996-2. Executive Order 1996-1 transferred the Medical Services Administration, Medical Assistance Program, and State Medical Program from FIA to the Department of Community Health (formerly the Department of Mental Health). Executive Order 1996-1 also transferred the Bureau of Regulatory Services, which included the Adult Foster Care Licensing Unit, Adult Foster Care Licensing Advisory Council, and Child Welfare Licensing Unit, from FIA to the Department of Consumer and Industry Services (formerly the Department of Commerce). FIA provided

fiscal services to the Departments of Community Health and Consumer and Industry Services throughout fiscal year 1995-96 because appropriations for the Medical Services Administration, Medical Services Program, State Medical Program, and Bureau of Regulatory Services remained in FIA's appropriation structure.

Executive Order 1996-2 transferred the Commission for Disability Concerns and the Michigan Commission for the Blind from the Michigan Jobs Commission to FIA. The Department of Consumer and Industry Services provided fiscal services for the Commissions throughout fiscal year 1995-96. The effective date of the transfer was May 15, 1996.

During fiscal year 1994-95, the Governor issued Executive Order 1995-2. This order transferred the Weatherization and Community Services Block Grant Programs from the Michigan Jobs Commission to FIA effective April 5, 1995.

b. Basis of Accounting and Presentation

The financial schedules and financial statements contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for FIA's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either FIA or the State's General Fund in accordance with generally accepted accounting principles.

The accompanying financial statements present only the Children's Trust Fund. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

c. Amounts Owed the State

Current and former public assistance clients owe FIA various amounts because of overpayments or advances made in anticipation of other sources. Overpayments have been entered on the Automated Recoupment System (ARS) or manual accounts receivable records, and advances are entered on FIA's potential accounts receivable records. FIA identified the following overpayments and advances (in millions):

	September 30	
	1996	1995
Overpayments and advances:		
ARS	\$225.0	\$209.0
Potential and manual records	\$ 36.8	\$ 36.8

Because of the uncertainty of collecting these amounts, FIA, in accordance with generally accepted accounting principles, recorded accounts receivable based on actual collections in the first 60 days of the new fiscal year. The accounts receivable and related accounts payable to the federal government were as follows:

	September 30	
	1996	1995
Accounts receivable:		
ARS	\$1,763,767	\$1,630,085
Potential and manual records	\$ 367,973	\$ 317,430
Accounts payable:		
ARS	\$ 722,219	\$ 716,779
Potential and manual records	\$ 25,789	\$ 26,385

The ARS Food Stamp accounts receivable (including coupons) as of September 30, 1996 and September 30, 1995 was \$70,116,433 and \$79,404,951, respectively. The Food Stamp accounts receivable applicable to the coupons are not recorded on the Michigan Administrative Information Network.

Recoveries of these accounts receivable in the first 60 days of the new year, which amounted to \$374,781 and \$309,530 as of September 30, 1996 and September 30, 1995, respectively, were recorded as accounts receivable.

Note 2 Accounting Changes

a. Accounting for Food Stamps

In fiscal year 1995-96, as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," FIA changed its method of accounting for food stamps as required. In fiscal year 1995-96, distributions of food stamp benefits totaling \$733.2 million were recorded as revenue and expenditures in the General Fund when the benefit was distributed; food stamps held by the State or its agents at September 30, 1996 were recorded as an "other" asset offset by deferred revenue, which totaled \$224.4 million.

b. Child Support Collections

In fiscal year 1996-97, FIA changed its method of accounting for child support recovery revenue resulting from welfare reform funding changes. In prior fiscal years, certain amounts related to child support recovery revenue that are now recorded as revenue from "Federal agencies" on the schedule of General Fund revenue and operating transfers had been recorded as "Miscellaneous" revenue. Fiscal year 1995-96 and 1994-95 amounts, which totaled \$89.6 and \$90.0 million, respectively, have been restated.

Note 3 Schedule of General Fund Sources and Disposition of Authorizations

The format of this schedule was changed for fiscal year 1995-96 to more closely match the presentation in the *SOMCAFR*. The various elements of the sources and disposition of authorizations for fiscal year 1995-96 are defined as follows:

- a. General purpose appropriations - Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose appropriations.

- b. Balances carried forward - Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources - Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - unauthorized.
- d. Intrafund expenditure reimbursements - Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Balances lapsed - Department authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- f. Overexpended - The total of a department's overexpenditure of line-item authorizations. FIA is required to seek a supplemental appropriation to authorize the expenditure.

Note 4 Contingencies and Commitments

a. Estimated Mispayments for Major Public Assistance Programs

The FIA Office of Quality Assurance (OQA) conducts ongoing quality assurance reviews of cases within the Family Support Payments to States - Assistance Payments - AFDC Grants, Medical Assistance

Program (Medicaid; Title XIX), and the Food Stamps Program. Based on its reviews, OQA projected the following mispayments, excluding underpayments, for federal program reporting purposes (in millions):

	Fiscal Year	
	1995-96	1994-95
Aid to Families With Dependent Children (AFDC)	\$54.0	\$58.9
Medicaid	\$ 9.2	\$11.3
Food stamps (coupons)	\$66.8	\$61.1

The amounts reported are final OQA projections for fiscal years 1995-96 and 1994-95. These amounts are not required to be reported in the schedule of questioned costs. Mispayments also occur in other federal and/or State programs that OQA does not review.

Federal agencies also monitor these mispayments. Should FIA exceed the tolerable federal mispayment rates, financial sanctions could be imposed against FIA. FIA exceeded the federal mispayment rate for the Food Stamps Program in fiscal year 1995-96 and was sanctioned \$3.4 million.

FIA also has ongoing processes to recover the mispayments. Recoveries related to these mispayments are described in Note 1c.

b. Foster Care Overpayment Recoveries

In fiscal year 1996-97, FIA initiated the reconciliation of foster care payments and services for the period December 14, 1992 through December 10, 1995. The reconciliation disclosed that foster care providers were overpaid an estimated \$12 million for the period. FIA's recovery of these overpayments will be contingent on final negotiations and agreements with providers, may be less than the total amount overpaid, and will likely be recovered over more than one fiscal year. FIA had not completed the reconciliation for the previously stated period as of the end of the audit.

Related to these provider overpayments is FIA's liability to the U.S. Department of Health and Human Services for "claimed costs." During fiscal years 1995-96 and 1994-95, FIA adjusted its claimed costs for estimated provider overpayments.

c. Litigation - *Zebley v Sullivan*

A federal district court ordered the U.S. Social Security Administration and states with State Supplementation Programs to make retroactive Social Security Income payments (for inappropriately denied claims) back to January 1, 1980. The retroactive payments are due to individuals previously denied childhood Social Security Income eligibility. There is no further litigation pending. Liabilities of \$374,000 and \$475,000 are included in the schedule of General Fund assets and liabilities for fiscal years 1995-96 and 1994-95, respectively.

Note 5 Balances Carried Forward

FIA balances carried forward (\$93,499,599) for fiscal year 1994-95 do not agree with the encumbrances carried forward and the unencumbered balances forward (\$94,901,982) for fiscal year 1993-94. The difference (\$1,402,383) can be attributed to the transfer of capital outlay carry-forward to the Department of Management and Budget under the Michigan Administrative Information Network.

Note 6 Overexpended Authorizations

FIA overexpended its legislative authorizations for the fiscal years ended September 30, 1996 and September 30, 1995 by \$37,073,616 and \$38,104,281, respectively, as reported on the schedule of General Fund sources and disposition of authorizations. Article 9, Section 17 of the State Constitution prohibits overexpenditures except in pursuance of appropriations made by law.

Note 7 Children's Trust Fund

a. Investments

Section 21.171 of the *Michigan Compiled Laws* directs the State Treasurer to invest Children's Trust Fund money in the same manner as State surplus funds are invested pursuant to Section 21.143 of the

Michigan Compiled Laws. "Equity in Common Cash" represents an interest in the State's Common Cash pool, which is used by most State funds as a short-term investment vehicle.

GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to investments and the custodial risk associated with them. Disclosures pursuant to GASB Statement No. 3 for the State's Common Cash pool are included in the footnotes to the *SOMCAFR*. All of the investments of the Children's Trust Fund were insured or registered, or held by the State or its agent in the State's name (GASB risk category 1).

At September 30, 1996, the Children's Trust Fund had investments in U.S. government securities in the name of the State with carrying amounts totaling \$6,053,527 and market values totaling \$6,057,878. At September 30, 1995, the Fund had investments in U.S. government securities held in the name of the State with carrying amounts totaling \$5,380,352 and market values totaling \$5,549,928.

b. Expenditure Limitation of Children's Trust Fund

Section 21.171 of the *Michigan Compiled Laws* limits the Children's Trust Fund's expenditures to the total of investment earnings from the previous fiscal year, grants and donations, and one half of the funds contributed from personal income tax checkoffs. The Fund records a fund balance reserve for one half of donations from income tax checkoffs that are not available for expenditure.

c. Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Budget detail by revenue account for fiscal years 1995-96 and 1994-95 and by expenditure account for fiscal year 1994-95 is not available because the various miscellaneous revenues and expenditures are budgeted as single amounts. The total revenue budget amounts are based on revenue estimates by the Office of Revenue and Tax Analysis, Department of Treasury. The expenditure budgets are appropriations as adjusted for approved transfers and restricted revenue adjustments.

SUPPLEMENTAL FINANCIAL SCHEDULES

FAMILY INDEPENDENCE AGENCY
Schedule of General Fund Assets and Liabilities
As of September 30
(In Thousands)

	<u>1996</u>	<u>1995</u>
Current Assets:		
Due from federal agencies - Title XIX	\$ 412,986	\$ 316,023
Due from federal agencies - other	\$ 517,273	\$ 321,057
Due from local units of government	\$ 44,378	\$ 33,788
Due from child support recovery of grants	\$ 91,364	\$ 88,258
Due from providers	\$ 58,550	\$ 51,364
Due from contract advances	\$ 2,303	\$ 201
Other current assets	\$ 4,940	\$ 5,486
Food stamp inventory	\$ 224,373	\$
Inventories	\$ 310	\$ 736
Noncurrent Assets:		
Due from federal agencies	\$ 173	\$ 1,437
Due from local units of government	\$ 5,078	\$ 6,642
Miscellaneous accounts receivable (long-term)	\$ 2,025	\$ 3,471
Current Liabilities:		
Social services grants payable	\$ 182,494	\$ 18,544
Medicaid Title XIX providers payable	\$ 425,655	\$ 419,180
Child support collections/incentives payable	\$ 6,877	\$ 7,136
Other operating payables	\$ 8,745	\$ 28,515
Unearned receipts	\$ 113,466	\$ 76,769
Due to other funds	\$ 232	\$ 232
Miscellaneous liabilities	\$ 184	\$ 208
Deferred revenue	\$ 224,660	\$ 236

The schedule of assets and liabilities is not a balance sheet and is not intended to report financial condition. The schedule presents only fund assets and liabilities accounted directly by FIA and excludes certain assets and liabilities which are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1996
(In Thousands)

Appropriation Unit	Total Authorizations	Gross Expenditures and Operating Transfers	Intrafund Expenditure Reimbursements
Executive operations	\$ 154,042	\$ 145,835	\$ (113)
Central support accounts	250,826	256,522	
Medical Services Administration	49,357	39,557	
Family Services Administration	152,650	149,788	(416)
Child and Family Services	673,461	668,875	
Delinquency Services	89,883	88,230	
Assistance payments, services, and clerical field staff	383,036	398,789	
Disability Determination Services	55,758	55,758	
Public assistance	1,874,276	1,846,095	
Medical Services	4,313,292	4,512,115	(214,045)
Individual family grant - Federal Emergency Management Assistance	1,105	1,047	
Miscellaneous accounts receivable write-offs/disallowances	40,578	47,546	
Court judgments	793	795	
Total	<u>\$ 8,039,057</u>	<u>\$ 8,210,953</u>	<u>\$ (214,574)</u>

Net Expenditures and Operating		Restricted Revenue - Not Authorized	Multi- Year Projects	Balances Lapsed	Overexpended
Transfers	Encumbrances				
\$ 145,722	\$ 535	\$ 16	\$ 7,534	\$ 1,180	\$ (946)
256,522	59			42	(5,798)
39,557	7,133			2,669	(2)
149,372	353			3,026	(101)
668,875	35			5,497	(946)
88,230	(7)			1,841	(182)
398,789	224			1	(15,977)
55,758					
1,846,095				28,181	
4,298,070	19	17		21,337	(6,151)
1,047				58	
47,546					(6,969)
795					(2)
<u>\$ 7,996,379</u>	<u>\$ 8,352</u>	<u>\$ 33</u>	<u>\$ 7,534</u>	<u>\$ 63,832</u>	<u>\$ (37,074)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1995
(In Thousands)

Appropriation Unit	Total Authorizations	Gross Expenditures and Operating Transfers	Intrafund Expenditure Reimbursements
Executive operations	\$ 123,846	\$ 97,275	\$ (14)
Central support accounts	257,167	257,858	
Medical Services Administration	48,574	37,163	
Family Services Administration	137,455	136,272	(416)
Child and Family Services	644,543	635,805	
Delinquency Services	89,477	87,877	
Assistance payments, services, and clerical field staff	382,975	380,246	
Disability Determination Services	53,018	53,018	
Public assistance	1,289,268	1,250,030	
Medical Services	3,892,889	4,165,487	(314,784)
Miscellaneous accounts receivable write-offs/disallowances	25,599	25,599	
Court judgments	890	1,429	
Totals	<u>\$ 6,945,702</u>	<u>\$ 7,128,058</u>	<u>\$ (315,214)</u>

Net Expenditures and Operating Transfers	Encumbrances	Multi- Year Projects	Balances Lapsed	Overexpended
\$ 97,261	\$ 162	\$ 24,456	\$ 1,999	\$ (32)
257,858	939		343	(1,973)
37,163	8,276		3,135	
135,856	658		946	(4)
635,805	148		10,861	(2,270)
87,877	24		1,707	(131)
380,246	51		2,810	(132)
53,018				
1,250,030			39,238	
3,850,704	941		74,268	(33,023)
25,599				
1,429				(539)
<u>\$ 6,812,844</u>	<u>\$ 11,198</u>	<u>\$ 24,456</u>	<u>\$ 135,308</u>	<u>\$ (38,104)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
(In Thousands)

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
<u>U.S. Department of Agriculture</u>			
Food Stamps Cash Out	10.551	**	\$ 45,000
Food Stamps FY 96 - Coupons (Note 2)	10.551	**	\$ 733,200
Total Food Stamps			
School Breakfast Program	10.553		\$ 303
National School Lunch Program	10.555		\$ 476
State Administrative Matching Grants for Food Stamp Program	10.561	**	\$ 136,321
Total U.S. Department of Agriculture			
<u>U.S. Department of Housing and Urban Development</u>			
Supportive Housing Programs - Homeless	14.235		\$ 2,107
Total U.S. Department of Housing and Urban Development			
<u>U.S. Department of Justice</u>			
Juvenile Justice and Delinquency Prevention - Challenge Grant	16.540		\$ 672
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		\$ 10,471
Total Juvenile Justice and Delinquency Prevention			
Title V - Delinquency Prevention Program	16.548		\$ 1,809
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586		\$ 38
Violence Against Women Formula Grants	16.588		\$ 4,235
Total U.S. Department of Justice			
<u>U.S. Department of Energy</u>			
Weatherization Assistance for Low-Income Persons	81.042	**	\$ 28,013
Total U.S. Department of Energy			
<u>Federal Emergency Management Agency</u>			
Disaster Assistance	83.516		\$ 960
Total Federal Emergency Management Agency			
<u>U.S. Department of Education</u>			
Adult Education - State Grant Program	84.002		\$ 115
Title I Program for Neglected and Delinquent Children	84.013		\$ 1,010
Special Education Grants to States	84.027		\$ 148
Vocational Education - Basic Grants to States	84.048A		\$ 355

This schedule continued on next page.

Amounts Transferred and Expended			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$ 40,448	\$	\$ 40,448
	733,200		733,200
\$ 0	\$ 773,648	\$ 0	\$ 773,648
\$	\$ 303	\$	\$ 303
\$	\$ 476	\$	\$ 476
\$ 1,212	\$ 71,156	\$ 2,335	\$ 74,702
\$ 1,212	\$ 845,583	\$ 2,335	\$ 849,130
\$	\$ 420	\$	\$ 420
\$ 0	\$ 420	\$ 0	\$ 420
\$	\$ 1,533	\$ 660	\$ 2,193
\$ 0	\$ 1,533	\$ 660	\$ 2,193
\$	\$	\$	\$
\$	\$ 11	\$	\$ 11
\$	\$ 33	\$	\$ 33
\$ 0	\$ 1,577	\$ 660	\$ 2,236
\$	\$ 2,685	\$ 12,013	\$ 14,698
\$ 0	\$ 2,685	\$ 12,013	\$ 14,698
\$	\$ 785	\$	\$ 785
\$ 0	\$ 785	\$ 0	\$ 785
\$	\$ 50	\$	\$ 50
\$	\$ 609	\$	\$ 609
\$	\$ 138	\$	\$ 138
\$	\$ 156	\$	\$ 156

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
(In Thousands)

Continued

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
Chapter 2 - State Block Grants	84.151		\$ 30
Eisenhower Mathematics and Science Education - State Grants	84.164		\$ 11
Eisenhower Professional Development - National Activities	84.168		\$ 65
Special Education - Grants for Infants and Families With Disabilities	84.181		\$ 228
Safe and Drug-Free Schools - State Grants	84.186		\$ 10
Safe and Drug-Free Schools - State Grants	84.186		\$ 1
Total Safe and Drug-Free Schools - State Grants			
Total U.S. Department of Education			
<u>U.S. Department of Health and Human Services</u>			
Family Preservation and Support Services	93.556		\$ 15,534
State Family Assistance Act (TANF)	93.558	**	\$ 193,838
Family Support Payments to States - Assistance Payments - Administration	93.560	**	\$ 85,117
Family Support Payments to States - Assistance Payments - AFDC Grants	93.560	**	\$ 436,616
Family Support Payments to States - Assistance Payments - Emergency	93.560	**	\$ 14,299
Family Support Payments to States - Assistance Payments - Child Care	93.560	**	\$ 30,922
Total Family Support Payments to States - Assistance Payments			
Job Opportunities and Basic Skills Training (JOBS)	93.561	**	\$ 48,421
Assistance Payments - Research	93.562		\$ 126
Child Support Enforcement (Title IV-D)	93.563	**	\$ 107,586
State Legalization Impact Assistance Grants (SLIAG)	93.565		
Refugee and Entrant Assistance - State Administered Programs (CMA)	93.566		\$ 8,757
Refugee and Entrant Assistance - State Administered Programs	93.566		\$ 4,124
Refugee and Entrant Assistance - State Administered Programs (Repatriates)	93.566		\$ 0
Total Refugee and Entrant Assistance - State Administered Programs			
Low-Income Home Energy Assistance	93.568	**	\$ 218,216
Community Services Block Grant	93.569	**	\$ 21,683
Community Services Block Grant Discretionary Awards - Community Food and Nutrition	93.571		\$ 416
Emergency Community Services for the Homeless	93.572		\$ 1,504
Child Care for Families At-Risk of Welfare Dependency	93.574		\$ 12,898
Child Care and Development Block Grant	93.575	**	\$ 75,255

This schedule continued on next page.

Amounts Transferred and Expended			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$ 0	\$ 461	\$ 0	\$ 461
\$	\$	\$	\$
\$	\$ 28	\$	\$ 28
\$	\$ 100	\$	\$ 100
\$	\$ 9	\$	\$ 9
	1		1
\$ 0	\$ 10	\$ 0	\$ 10
\$ 0	\$ 1,553	\$ 0	\$ 1,553
\$	\$ 4,322	\$ 1,062	\$ 5,385
\$ 8	\$ 82,496	\$	\$ 82,505
\$	\$ 79,408	\$ 110	\$ 79,518
4,560	386,382		390,942
	13,563		13,563
	19,290		19,290
\$ 4,560	\$ 498,643	\$ 110	\$ 503,313
\$ 33,733	\$ 15,770	\$ 175	\$ 49,679
\$	\$ 86	\$	\$ 86
\$ 12,036	\$ 89,641	\$	\$ 101,678
\$	\$ (42)	\$	\$ (42)
\$	\$ 5,106	\$	\$ 5,106
	1,502	102	1,604
	2		2
\$ 0	\$ 6,611	\$ 102	\$ 6,712
\$ 400	\$ 57,031	\$ 3,949	\$ 61,380
\$	\$ 14,573	\$ 372	\$ 14,946
\$	\$	\$	\$
\$	\$	\$	\$
\$	\$ 14,145	\$	\$ 14,145
\$ 675	\$ 24,730	\$ 646	\$ 26,051

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
(In Thousands)

Continued

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
Refugee and Entrant Assistance - Discretionary Grants	93.576		\$ 180
Refugee and Entrant Assistance - Discretionary Grants (Work Plus)	93.576		\$ 338
Total Refugee and Entrant Assistance			
Empowerment Zones Program	93.585		\$ 108,842
Refugee Assistance - Naturalization and Citizenship Activities	93.589		\$ 4
Head Start State Collaboration	93.600		\$ 200
Child Welfare Research and Demonstration - Intergenerational AFDC Dependency	93.608		\$ 106
Child Development Associate Scholarships	93.614		\$ 49
Children's Justice Grants to States	93.643		\$ 1,070
Child Welfare Services - State Grants	93.645		\$ 20,676
Adoption Opportunities	93.652		\$ 150
Adoption Opportunities - Cultural Competence Training	93.652		\$ 50
Total Adoption Opportunities			
Temporary Child Care and Crisis Nurseries - Family Resource Center	93.656		\$ 600
Temporary Child Care and Crisis Nurseries	93.656		\$ 400
Total Temporary Child Care and Crisis Nurseries			
Foster Care Title IV-E Administration	93.658	**	\$ 56,167
Foster Care Title IV-E Payments	93.658	**	\$ 57,584
Foster Care Title IV-E Training	93.658	**	\$ 720
Total Foster Care Title IV-E			
Adoption Assistance	93.659	**	\$ 37,032
Social Services Block Grant	93.667	**	\$ 87,012
Child Abuse and Neglect - Discretionary Activities: Baby Doe	93.670		\$ 287
Child Abuse and Neglect - Discretionary Activities	93.670		\$ 1,472
Total Child Abuse and Neglect - Discretionary Activities			
Family Violence Prevention and Services - Grants to States and Indian Tribes	93.671		\$ 2,698
Grants to States for Planning and Development of Dependent Care Programs	93.673		\$ 200
Independent Living	93.674		\$ 8,390
State Survey and Certification of Health Care Providers and Suppliers	93.777		\$ 4,502

This schedule continued on next page.

Amounts Transferred and Expended

Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$ 71	\$	\$ 71
	151		151
\$ 0	\$ 222	\$ 0	\$ 222
\$	\$ (1,391)	\$	\$ (1,391)
\$	\$	\$	\$
\$	\$	\$	\$
\$	\$ 84	\$	\$ 84
\$	\$ 43	\$	\$ 43
\$	\$ 681	\$	\$ 681
\$	\$ 9,536	\$ 552	\$ 10,088
\$	\$ 66	\$ 84	\$ 150
	18		18
\$ 0	\$ 84	\$ 84	\$ 168
\$	\$ 32	\$ 216	\$ 248
	140	73	213
\$ 0	\$ 172	\$ 289	\$ 462
\$	\$ 54,039	\$ 9,250	\$ 63,289
	58,754		58,754
	(2,105)		(2,105)
\$ 0	\$ 110,688	\$ 9,250	\$ 119,938
\$	\$ 33,587	\$	\$ 33,587
\$	\$ 82,708	\$ 5,083	\$ 87,791
\$	\$ 105	\$	\$ 105
	557	20	578
\$ 0	\$ 662	\$ 20	\$ 682
\$	\$ 1,272	\$	\$ 1,272
\$	\$ 183	\$	\$ 183
\$	\$ 2,696	\$ 532	\$ 3,228
\$ 4,818	\$ 654	\$	\$ 5,472

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
(In Thousands)
Continued

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
Medical Assistance Program - Medicaid; Title XIX Administration and Training	93.778	**	\$ 260,488
Medical Assistance Program - Medicaid; Title XIX Grant	93.778	**	\$ 3,095,401
Medical Assistance Program - Medicaid; Title XIX Waiver 6407 (375)	93.778	**	\$ 1,319
Medical Assistance Program - Medicaid; Title XIX Waiver 4712 (374)	93.778	**	\$ (1,250)
Total Medical Assistance Program Title XIX			
Preventive Health and Health Services Block Grant - Rape Prevention	93.991		\$ 254
Planning and Program Development Grants	94.007		\$ 130
Social Security - Disability Insurance	96.001	**	\$ 257,484
Total U.S. Department of Health and Human Services			
Total Federal Financial Assistance			

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

** Major program, as defined by the Single Audit Act.

See the Notes to Schedules of Federal Financial Assistance for Notes 1 through 5.

Amounts Transferred and Expended			
Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$ 423,304	\$ 149,428 2,653,929	\$ 23,314	\$ 172,742 3,077,233
1,177	(1,344)		(167)
\$ 424,481	\$ 2,802,013	\$ 23,314	\$ 3,249,808
\$	\$ 254	\$	\$ 254
\$	\$ 130	\$	\$ 130
\$	\$ 53,958	\$	\$ 53,958
\$ 480,712	\$ 3,906,245	\$ 45,542	\$ 4,432,498
<u>\$ 481,924</u>	<u>\$ 4,758,847</u>	<u>\$ 60,550</u>	<u>\$ 5,301,320</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1995
(In Thousands)

Grantor Agency/ Federal Assistance Program Title	CFDA * Program Number	Amount of Award
<u>Financial Assistance</u>		
<u>U.S. Department of Agriculture</u>		
Rural Housing Preservation Grants - Adopt-A-House Demonstration	10.433	\$ 15
School Breakfast Program	10.553	\$ 299
National School Lunch Program	10.555	\$ 447
State Administrative Matching Grants for Food Stamp Program	10.561 **	\$ 63,373
Total U.S. Department of Agriculture		
<u>U.S. Department of Housing and Urban Development</u>		
Supportive Housing Program - Homeless	14.235	\$ 2,107
Total U.S. Department of Housing and Urban Development		
<u>U.S. Department of Justice</u>		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	\$ 8,204
Title V - Delinquency Prevention Program	16.548	\$ 450
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	\$ 38
Violence Against Women Formula Grants	16.588	\$ 426
Total U.S. Department of Justice		
<u>U.S. Department of Energy</u>		
Weatherization Assistance for Low-Income Persons (Note 3)	81.042 **	\$ 17,685
Total U.S. Department of Energy		
<u>U.S. Department of Education</u>		
Adult Education - State Grant Program	84.002	\$ 168
Education of Children With Disabilities in State-Operated or Supported Schools	84.009	\$ 144
Title I Program for Neglected and Delinquent Children	84.013	\$ 664
Special Education - Grants to States	84.027	\$ 30
Vocational Education - Basic Grants to States	84.048	\$ 188
Chapter 2 - State Block Grants	84.151	\$ 25
Eisenhower Mathematics and Science Education - State Grants	84.164	\$ 11
Eisenhower Professional Development - National Activities	84.168	\$ 172
Safe and Drug-Free Schools - State Grants	84.186	\$ 10
Total U.S. Department of Education		
<u>U.S. Department of Health and Human Services</u>		
Teen Parent	93.022	\$ 55
Family Preservation and Support Services - Title IV-B Child Welfare, Subpart 2	93.556	\$ 7,840

This schedule continued on next page.

Amounts Transferred and Expended

Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$ 2	\$	\$ 2
\$	\$ 299	\$	\$ 299
\$	\$ 489	\$	\$ 489
\$ 2,244	\$ 60,577	\$ 210	\$ 63,031
\$ 2,244	\$ 61,367	\$ 210	\$ 63,821
\$	\$ 192	\$	\$ 192
\$ 0	\$ 192	\$ 0	\$ 192
\$	\$ 1,571	\$	\$ 1,571
\$	\$	\$	\$
\$	\$	\$	\$
\$	\$ 1	\$	\$ 1
\$ 0	\$ 1,573	\$ 0	\$ 1,573
\$	\$ 6,985	\$	\$ 6,985
\$ 0	\$ 6,985	\$ 0	\$ 6,985
\$	\$ 162	\$	\$ 162
\$	\$ 144	\$	\$ 144
\$	\$ 588	\$ 69	\$ 657
\$	\$ 30	\$	\$ 30
\$	\$ 116	\$	\$ 116
\$ 0	\$ (51)	\$ 0	\$ (51)
\$	\$ 6	\$	\$ 6
\$	\$ 165	\$	\$ 165
\$	\$ 6	\$	\$ 6
\$ 0	\$ 1,166	\$ 69	\$ 1,235
\$	\$ 55	\$	\$ 55
\$	\$	\$	\$

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1995
(In Thousands) -continued

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
Family Support Payments to States - Assistance Payments - Administration	93.560	**	\$ 81,021
Family Support Payments to States - Assistance Payments - AFDC Grants	93.560	**	\$ 532,035
Family Support Payments to States - Assistance Payments - Emergency	93.560	**	\$ 9,408
Family Support Payments to States - Assistance Payments - Child Care	93.560	**	\$ 14,261
Total Family Support Payments to States - Assistance Payments			
Job Opportunities and Basic Skills Training (JOBS)	93.561	**	\$ 49,241
Assistance Payments - Research	93.562		\$ 159
Child Support Enforcement (Title IV-D)	93.563	**	\$ 77,906
State Legalization Impact Assistance Grants (SLIAG)	93.565		\$ 2,059
Refugee and Entrant Assistance - State Administered Programs (CMA)	93.566		\$ 8,750
Refugee and Entrant Assistance - State Administered Programs	93.566		\$ 3,106
Refugee and Entrant Assistance - State Administered Programs (Repatriates)	93.566		\$ 6
Total Refugee and Entrant Assistance			
Low-Income Home Energy Assistance (LIHEAP)	93.568	**	\$ 246,668
Community Services Block Grant (CSBG) (Note 3)	93.569	**	\$ 14,429
Community Services Block Grant Discretionary Awards - Community Food and Nutrition	93.571		\$ 329
Emergency Community Services for the Homeless	93.572		\$ 1,504
Child Care for Families At-Risk of Welfare Dependency	93.574		\$ 14,652
Child Care and Development Block Grant (CCDBG)	93.575	**	\$ 48,383
Refugee and Entrant Assistance - Discretionary Grants	93.576		\$ 259
Empowerment Zones Program - Detroit Enterprise Zone	93.585		\$ 50,000
Empowerment Zones Program - Flint Enterprise Zone	93.585		\$ 2,947
Empowerment Zones Program - FiveCAP Inc.	93.585		\$ 2,947
Empowerment Zones Program - Muskegon Enterprise Zone	93.585		\$ 2,947
Total Empowerment Zones Program			
Refugee Assistance - Naturalization and Citizenship Activities	93.589		\$ 4
Child Welfare Research and Demonstration - Intergenerational AFDC Dependency	93.608		\$ 215
Child Development Associate Scholarships	93.614		\$ 99
Children's Justice Grants to States	93.643		\$ 794
Child Welfare Services - State Grants	93.645		\$ 21,476
Adoption Opportunities	93.652		\$ 150
Temporary Child Care and Crisis Nurseries - LAP Respite Care	93.656		\$ 400
Temporary Child Care and Crisis Nurseries - Saginaw Respite Care	93.656		\$ 150
Temporary Child Care and Crisis Nurseries	93.656		\$ 200

This schedule continued on next page.

Amounts Transferred and Expended

Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
\$	\$ 85,974	\$ 115	\$ 86,088
4,829	501,387	26	506,242
	5,354	7,066	12,420
	21,311	163	21,474
\$ 4,829	\$ 614,026	\$ 7,370	\$ 626,224
\$	\$ 67,907	\$ 2,056	\$ 69,963
\$	\$ 29	\$	\$ 29
\$ 11,376	\$ 51,694	\$ 28,860	\$ 91,931
\$	\$ 857	\$	\$ 857
\$	\$ 5,568	\$ 4	\$ 5,573
	(169)	1,113	944
	14		14
\$ 0	\$ 5,414	\$ 1,118	\$ 6,531
\$ 641	\$ 89,777	\$ 3	\$ 90,422
\$	\$ 6,810	\$	\$ 6,810
\$	\$	\$	\$
\$	\$	\$	\$
\$	\$ 10,775	\$	\$ 10,775
\$ 460	\$ 31,926	\$ 1	\$ 32,386
\$	\$ 101	\$	\$ 101
\$	\$	\$	\$
\$ 0	\$ 0	\$ 0	\$ 0
\$	\$	\$	\$
\$	\$ 24	\$	\$ 24
\$	\$ 33	\$	\$ 33
\$	\$ 259	\$	\$ 259
\$	\$ 6,611	\$ 9,448	\$ 16,059
\$	\$	\$	\$
\$	\$ 182	\$	\$ 182
	2	42	44

FAMILY INDEPENDENCE AGENCY
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1995
(In Thousands)- *Continued*

Grantor Agency/ Federal Assistance Program Title	CFDA Program Number	*	Amount of Award
Temporary Child Care and Crisis Nurseries - Family Resource Center	93.656		\$ 600
Total Temporary Child Care and Crisis Nurseries			
Foster Care Title IV-E - Administration	93.658	**	\$ 63,744
Foster Care Title IV-E - Payments	93.658	**	\$ 31,035
Foster Care Title IV-E - Training	93.658	**	\$ 87
Total Foster Care Title IV-E			
Adoption Assistance	93.659	**	\$ 33,207
Social Services Block Grant	93.667	**	\$ 206,444
Child Abuse and Neglect Discretionary Activities: Baby Doe	93.670		\$ 194
Child Abuse and Neglect Discretionary Activities	93.670		\$ 2,054
Total Child Abuse and Neglect Discretionary Activities			
Family Violence Prevention and Services - Grants to States and Indian Tribes	93.671		\$ 2,006
Grants to States for Planning and Development of Dependent Care Programs	93.673		\$ 501
Independent Living	93.674		\$ 12,449
State Survey and Certification of Health Care Providers and Suppliers	93.777		\$ 4,006
Medical Assistance Program - Medicaid; Title XIX MI Child Caring (375)	93.778	**	\$ 1,319
Medical Assistance Program - Medicaid; Title XIX Waiver 4712 (374)	93.778	**	\$ 4,375
Medical Assistance Program - Medicaid; Title XIX Administration and Training	93.778	**	\$ 178,094
Medical Assistance Program - Medicaid; Title XIX Grant (370)	93.778	**	\$ 2,851,509
Total Medical Assistance Program Title XIX			
Preventive Health and Health Services Block Grant (PHHS Block Grant)	93.991		\$ 256
Social Security - Disability Insurance	96.001	**	\$ 107,780
Total U.S. Department of Health and Human Services			
Total Financial Assistance			
<u>Nonfinancial Assistance</u>			
<u>U.S. Department of Agriculture</u>			
Food Stamps (Note 2)	10.551	**	\$ 806,701
Total U.S Department of Agriculture			
Total Nonfinancial Assistance			
Total Federal Assistance			

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

** Major program, as defined by the Single Audit Act.

See the Notes to Schedules of Federal Financial Assistance for Notes 1 through 5.

Amounts Transferred and Expended

Transferred to Other State Agencies	Directly Expended by Department	Distributed to Subrecipients	Total
	81		81
\$ 0	\$ 265	\$ 42	\$ 307
\$	\$ 57,257	\$ 2,624	\$ 59,881
	65,249		65,249
	1,088	1	1,089
\$ 0	\$ 123,594	\$ 2,624	\$ 126,218
\$	\$ 32,372	\$	\$ 32,372
\$	\$ 145,101	\$ 9,202	\$ 154,303
\$	\$ 82	\$	\$ 82
	1,335		1,335
\$ 0	\$ 1,417	\$ 0	\$ 1,417
\$	\$ 378	\$	\$ 378
\$	\$ 438	\$	\$ 438
\$	\$ 2,301	\$ 1,708	\$ 4,009
\$ 2,099	\$ 4,808	\$	\$ 6,908
\$	\$ 149	\$	\$ 149
4,558			4,558
	132,945	7,628	140,573
447,251	2,426,662	3	2,873,917
\$ 451,809	\$ 2,559,756	\$ 7,631	\$ 3,019,196
\$	\$ 65	\$ 191	\$ 256
\$	\$ 55,440	\$ 3	\$ 55,443
\$ 471,215	\$ 3,812,235	\$ 70,257	\$ 4,353,707
\$ 473,459	\$ 3,883,518	\$ 70,536	\$ 4,427,513
\$	\$ 806,701	\$	\$ 806,701
\$ 0	\$ 806,701	\$ 0	\$ 806,701
\$ 0	\$ 806,701	\$ 0	\$ 806,701
\$ 473,459	\$ 4,690,219	\$ 70,536	\$ 5,234,213

CONSUMER and INDUSTRY SERVICES
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996
(In Thousands)

<u>Grantor Agency/ Federal Assistance Program Title</u>	<u>C.F.D.A. *</u> <u>Program</u> <u>Number</u>	<u>Amount of</u> <u>Award</u>
<u>U.S. Department of Education</u>		
Rehabilitation Services Basic Support	84.126 **	\$ 8,974
Independent Living-State Grants	84.169	206
Rehabilitation Services-Older Indiv.	84.177	187
Supported Employment Services	84.187	100
Rehabilitation Training	84.265	40
Total U.S. Department of Education		
Total Federal Financial Assistance		_____

* CFDA is defined as Catalog of Federal Domestic Assistance.

** Major program, as defined by the Single Audit Act.

See the Notes to Schedules of Federal Financial Assistance for Notes 1 through 5.

Transferred to Other State Agencies	Amounts Transferred and Expended		Total
	Directly Expended by Department	Distributed to Subrecipients	
\$	\$ 8,974	\$	\$ 8,974
	206		206
	186		186
	72		72
	19		19
\$ 0	\$ 9,459	\$ 0	\$ 9,459
\$ 0	\$ 9,459	\$ 0	\$ 9,459

CONSUMER and INDUSTRY SERVICES
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1995
(In Thousands)

Grantor Agency/ Federal Assistance Program Title	C.F.D.A. * Program Number	Amount of Award
Federal Financial Assistance:		
<u>U.S. Department of Education</u>		
Rehabilitation Services -Grants to States	84.126 **	\$ 9,813
Centers for Independent Living	84.132	20
Rehabilitation Services - Client Assistance Program	84.161	50
Independent Living-State Grants	84.169	207
Rehabilitation Services-Independent Living Services	84.177	180
Supported Employment Services	84.187	43
Total U.S Department of Education		<hr/>
Total Federal Financial Assistance		<hr/>

* CFDA is defined as Catalog of Federal Domestic Assistance.

** Major program, as defined by the Single Audit Act.

See the Notes to Schedules of Federal Financial Assistance for Notes 1 through 5.

Transferred to Other State Agencies	Amounts Transferred and Expended		TOTAL
	Directly	Distributed	
Other State Agencies	Expended by Department	to Subrecipients	
\$	\$ 9,813	\$	\$ 9,813
	20		20
	50		50
	207		207
	180		180
	43		43
<u>\$ 0</u>	<u>\$ 10,313</u>	<u>\$ 0</u>	<u>\$ 10,313</u>
<u>\$ 0</u>	<u>\$ 10,313</u>	<u>\$ 0</u>	<u>\$ 10,313</u>

MICHIGAN JOBS COMMISSION
Schedule of Federal Financial Assistance
For the Six Months Ended March 31, 1995
(In Thousands)

Grantor Agency/ Federal Assistance Program Title	C.F.D.A. * Program Number	Amount of Award
Federal Financial Assistance:		
<u>U.S. Department of Energy</u>		
Weatherization (Note-2)	81.042 **	\$ 27,727
Total U.S. Department of Energy		\$ 27,727
<u>U.S. Department of Health and Human Services</u>		
Community Service Block Grant (CSBG) (Note 2)	93.569 **	\$ 21,613
Total U.S. Department of Health and Human Services		
Total Federal Financial Assistance		

* CFDA is defined as Catalog of Federal Domestic Assistance.

** Major program, as defined by the Single Audit Act.

See the Notes to Schedules of Federal Financial Assistance for Notes 1 through 5.

Transferred to Other State Agencies	Amounts Transferred and Expended				TOTAL		
	Directly Expended by Department	Distributed to Subrecipients					
\$	27	\$	424	\$	10,195	\$	10,647
\$	27	\$	424	\$	10,195	\$	10,647
\$	23	\$	387	\$	7,085	\$	7,494
\$	23	\$	387	\$	7,085	\$	7,494
\$	50	\$	811	\$	17,280	\$	18,142

Notes to Schedules of Federal Financial Assistance

Note 1 Significant Accounting Policies

Expenditures on these schedules are reported on the modified accrual basis of accounting in accordance with generally accepted accounting principles. The grant awards are presented on the cash basis because federal grantors authorize federal financial assistance based on FIA's quarterly federal reports, which are presented on a cash basis. Also, the grant award amounts reported include all grant awards active during the fiscal year and generally overstate the actual amount of the available awards. Therefore, differences occur on the schedules between expenditures and grant awards because expenditures for capped and entitlement grants often exceed award amounts and, for some entitlement grants, supplemental awards are pending:

Federal Capped Grants for Which Expenditures Exceeded Awards

Each of the following federal capped grant programs had expenditures exceeding the grant award for the following fiscal years:

	Fiscal Year	
	1995-96	1994-95
Job Opportunities and Basic Skills Training (CFDA #93.561)	\$17,103,083	
Child Care and Development Block Grant (CFDA #93.575)	\$38,126,802	
Child Welfare Services - State Grants (CFDA #93.645)	\$14,693,536	\$9,851,179
Social Services Block Grant (CFDA #93.667)	\$90,823,655	\$42,667,016

However, FIA did not report expenditures that exceeded the grant award for the federal capped grant programs in the fiscal year 1995-96 schedule of federal financial assistance.

Federal Entitlement Grants With Pending Supplemental Awards

All of the following federal grant programs had supplemental grant awards pending at the close of both fiscal years 1995-96 and 1994-95:

<i>CFDA</i>	
Program	
Number	Federal Assistance Program Title
10.561	State Administrative Matching Grants for Food Stamp Program
93.560	Family Support Payments to States - Assistance Payments - Administration
93.560	Family Support Payments to States - Assistance Payments - AFDC Grants
93.560	Family Support Payments to States - Assistance Payments - Emergency
93.560	Family Support Payments to States - Assistance Payments - Child Care
93.561	Job Opportunities and Basic Skills Training (JOBS)
93.563	Child Support Enforcement (Title IV-D)
93.658	Foster Care Title IV-E Administration
93.658	Foster Care Title IV-E Payments
93.658	Foster Care Title IV-E Training
93.659	Adoption Assistance
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program - Medicaid; Title XIX Administration and Training
93.778	Medical Assistance Program - Medicaid; Title XIX Grant (370)

Note 2 Food Stamps

In fiscal year 1995-96, as a result of implementing GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," FIA changed its method of accounting for food stamps as required. As a result, FIA recognized food stamp coupons as a federal financial assistance program in fiscal year 1995-96 and a federal nonfinancial assistance program in fiscal year 1994-95.

There is no official amount of award for the Food Stamps Program. The award amount represents the value of the food stamps issued during the year.

Note 3 Transfer of Programs

During fiscal year 1995-96, the Governor issued Executive Order 1996-2. The order transferred the Michigan Commission for the Blind from the Michigan Jobs Commission to FIA. The Michigan Commission for the Blind administered the federal programs throughout the audit period. However, the Department of Consumer and Industry Services provided fiscal services for the Commission throughout fiscal year 1995-96. Therefore, federal expenditures for programs administered by the Commission are not reported in FIA's schedule of federal financial assistance.

During fiscal year 1994-95, the Governor issued Executive Order 1995-2. The order transferred the Weatherization and Community Services Block Grant Programs from the Michigan Jobs Commission to FIA effective April 5, 1995. FIA's fiscal year 1994-95 schedule of federal financial assistance reports Weatherization and Community Services Block Grant federal expenditures for the six months ended September 30, 1995.

Note 4 Expenditure of Federal Funds Compared With Federal Revenue

The expenditure of federal funds claimed and reported on these schedules substantially agrees with, but will differ from, the federal revenue reported on

the schedule of revenue and operating transfers because of the following items:

	Fiscal Year	
	1995-96	1994-95
Federal claims for purchase of services by other State agencies had the corresponding revenue transferred from FIA accounts to the applicable agencies' revenue accounts.	\$ 507,682,679	\$ 481,130,016
Federal expenditures claimed for the capped grants (Note 1) exceeded award amounts and were not reimbursed but could be reimbursed if program disallowances occur.		\$ 52,518,195
Federal reports do not reflect repaid food stamp overissuances retained by FIA.	\$ 2,028,875	\$ 1,245,172
Certain federal claim adjustments on federal reports did not generate federal revenues.	\$ 32,899	\$ 22,897,532

Note 5 Schedule Expenditures Compared With Quarterly Federal Reports

As described in Note 1, FIA reports the expenditures on these schedules on the modified accrual basis of accounting and prepares its quarterly federal reports on the cash basis. To reconcile the total expenditures on these

schedules with costs claimed on the quarterly federal reports, the following items must be considered:

	Fiscal Year	
	1995-96	1994-95
Federal reports do not include accruals for amounts directly spent by FIA, distributed to subgrantees, and transferred to other State agencies.	\$ 17,831,998	\$ 13,404,275
Expenditures on the schedules do not include net write-offs of prior year claims, unearned receipts, and federal claims not recognized as federal expenditures.	\$ 26,574,783	\$ 18,412,567

SUPPLEMENTAL INFORMATION

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995

Program and Grant/Contract Number	Finding	Questioned Costs (A)
<u>U.S. Department of Agriculture</u>		
1. Food Stamps CFDA #10.551	FIA incorrectly determined the food stamp amount for 2 of 40 cases reviewed. Case - R8234117A Case - K3347976A (Finding 2.c.)	\$ 27 (B) (6) (B)
2. State Administrative Matching Grants for Food Stamp Program CFDA #10.561	For four cases, FIA could not locate required documents to support payments to or on behalf of clients. Cases - V3276795A, R8554225C, V3724579A, and V3262837A (Finding 2.a.) FIA did not maintain documentation of the verification of the day care provider's actual cost of care. Case - V3229165A (Finding 2.a.)	390 97
3. State Administrative Matching Grants for Food Stamp Program CFDA #10.561	FIA did not pay the lower of FIA's maximum day care rate or the actual provider rate. Case - V3229165A (Finding 2.c.) FIA improperly charged day care expenditures to the Food Stamp Administration grant. (Finding 1.a.)	97 332,604
4. State Administrative Matching Grants for Food Stamp Program CFDA #10.561	FIA improperly charged day care expenditures to the Food Stamp Administration grant. (Finding 1.a.)	(71,875)
<u>U.S. Department of Energy</u>		
5. Weatherization Assistance for Low-Income Persons CFDA #81.042 DE-FG45-89CG10411	FIA did not determine if the units that it weatherized were previously weatherized and, therefore, could not ensure that all units were weatherized in accordance with federal regulation. (Finding 8) FIA processed an accounting adjustment that erroneously reduced Weatherization expenditures when it should have reduced LIHEAP expenditures. Document AE000202 (Finding 1.b.(1))	Not Determinable © (598,968)
6. Weatherization Assistance for Low-Income Persons CFDA #81.042 DE-FG45-89CG10411	FIA incorrectly charged LIHEAP (93.568) expenditures to the Weatherization Program. Document W6159668 (Finding 1.b.(2))	21,445
<u>U.S. Department of Education</u>		
7. Title I Program for Neglected and Delinquent Children CFDA #84.013	FIA could not provide documentation to support charges for vehicle mileage usage. Voucher GBM65971 (Finding 4.c.)	349
8. Rehabilitation Services - Vocational Rehabilitation Grants to States CFDA #84.126 H126A50030	FIA incorrectly classified a State-funded program (Youth Low Vision) expenditure as a Rehabilitation Services Basic Support grant expenditure.	470

This schedule continued on next page.

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995
Continued

Program and Grant/Contract Number	Finding	Questioned Costs (A)
<u>U.S. Department of Health and Human Services</u>		
9. Family Support Payments to States - Assistance Payments - AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	FIA could not locate documents to support payments to or on behalf of clients. Case - K8119476A (Finding 2.a.) FIA did not maintain documentation supporting day care center billings. Case - R8608330D (Finding 2.a.)	\$ 110 (B) 209
10. Family Support Payments to States - Assistance Payments - AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	Three cases did not include a social security number for all group members at the time of our sampled payment. Cases - V1443979A, V1906746B, and V0894969A (Finding 2.c.) For one case, FIA issued payments to a client who had excessive income/expenses and/or assets. Case - V1743888A (Finding 2.c.)	 3,449 (B) 760 (B)
11. Family Support Payments to States - Assistance Payments - AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	FIA charged Title IV-A Emergency Housing Assistance Program expenditures to the Title IV-F Job Opportunities and Basic Skills Training grant. (Finding 1.b.(3)) FIA charged Title IV-A Child Care expenditures to the Title IV-F EDGE Program. Voucher W5053694 (Finding 1.b.(4))	 (124,640) (5,959)
12. Family Support Payments to States - Assistance Payments - AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	FIA requested AFDC funds based on expenditure amounts different than those allowed by the CMIA agreement. (Finding 3.b.(4)) FIA did not accurately determine the family group income level for Group III clients. Case - R8608330D (Finding 2.c.)	 81,300 209
13. Family Support Payments to States - Assistance Payments - AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	FIA improperly charged day care expenditures to the Child Care and Development Block Grant. (Finding 1.a.)	 (8,764,115)
14. Job Opportunities and Basic Skills Training (JOBS) CFDA #93.561 G 95 03 MI JOBS	FIA could not locate required documents to support payments to or on behalf of clients. Case - V1457839A (Finding 2.a.)	 81
15. Job Opportunities and Basic Skills Training (JOBS) CFDA #93.561 G 95 03 MI JOBS G 96 03 MI JOBS	FIA charged Title IV-A Child Care expenditures to the Title IV-F EDGE Program. Voucher W5053694 (Finding 1.b. (4))	 5,959

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995 - *Continued*

Program and Grant/Contract Number	Finding	Questioned Costs (A)
16. Job Opportunities and Basic Skills Training (JOBS) CFDA #93.561 G 95 03 MI JOBS G 96 03 MI JOBS	FIA overpaid a provider for transportation services. FIA overpaid an EDGE contract provider for service units that did not meet the contract requirements. Voucher W5053694 (Finding 4.b.)	\$ 564 (D) 85,400 (D)
17. Job Opportunities and Basic Skills Training (JOBS) CFDA #93.561 G 95 03 MI JOBS G 96 03 MI JOBS	FIA used federal program award amounts instead of the previous quarter's actual administrative expenditures as a basis for federal funds drawdowns. (Finding 3.b.(2)) FIA charged Title IV-A Emergency Housing Assistance Program expenditures to the Title IV-F Job Opportunities and Basic Skills Training grant. (Finding 1.b.(3))	 26,127 (D) 124,640 (D)
18. Child Support Enforcement (Title IV-D) CFDA #93.563 G 95 04 MI 4004 G 96 04 MI 4004	FIA used amounts less than the required prorated share of the award amounts as a basis for federal funds drawdown. (Finding 3.b.(1)) FIA did not use the correct federal Medicaid assistance percentage when calculating the federal share of child support collections.	 (424,000) (6,538)
19. Low-Income Home Energy Assistance (LIHEAP) CFDA #93.568 G 93 B1 MI LIEA G 94 B1 MI LIEA G 94 B2 MI LIEA G 94 B3 MI LIEA G 95 B1 MI LIEA G 95 B2 MI LIEA G 95 B3 MI LIEA G 96 B1 MI LIEA G 96 B2 MI LIEA G 96 B3 MI LIEA	The Michigan Department of Treasury issued home heating credit refunds to a filer who had improperly calculated the credit. Case - V1008992A The Michigan Department of Treasury issued home heating credit refunds to a filer who had improperly calculated the credit. Case - P8232735A FIA processed an accounting adjustment that erroneously reduced Weatherization expenditures when it should have reduced LIHEAP expenditures. Document AE000202 (Finding 1.b.(1))	 17 (26) 598,968
20. Low-Income Home Energy Assistance (LIHEAP) CFDA #93.568 G 93 B1 MI LIEA G 94 B1 MI LIEA G 94 B2 MI LIEA G 94 B3 MI LIEA G 95 B1 MI LIEA G 95 B2 MI LIEA G 95 B3 MI LIEA G 96 B1 MI LIEA G 96 B2 MI LIEA G 96 B3 MI LIEA	FIA incorrectly charged LIHEAP (93.568) expenditures to the Weatherization Program. Document W6159668 (Finding 1.b.(2)) FIA used federal program award amounts instead of the previous quarter's actual administrative expenditures as a basis for federal funds drawdowns. (Finding 3.b.(3)) FIA did not use the previous quarter's actual administrative expenditures as a basis for federal funds drawdowns as required by the CMIA agreement. (Finding 3.b.(3))	 (21,445) 6,551 (5,128)
21. Child Care for Families At-Risk of Welfare Dependency CFDA # 93.574 G 95 04 MI 4012 G 96 04 MI 4012	FIA improperly coded a Group II case file as a Group III Title IV-A At-Risk case file. Case V2393176A (Finding 2.a.) FIA improperly charged day care expenditures to the Title IV-A At-Risk Child Care Program. (Finding 1.a.)	 9 2,062,263 (D)

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995 - Continued

Program and Grant/Contract Number	Finding	Questioned Costs (A)
22. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	For four cases, FIA could not locate documentation to support payments made to or on behalf of clients. Cases - V3092307A, V3076959A, V2969301A, and V3708926A (Finding 2.a.)	\$ 413 (D)
23. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	For five cases, FIA could not provide supporting documentation for the payment amount. Cases - V3100706A, V3076959A, V3752342A, V1716117A, and V3708926A (Finding 2.a.) FIA did not maintain documentation to support that a valid need reason existed at the time of our sample payment. Case - V3501734A (Finding 2.a.)	750 (D) 67 (D)
24. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	FIA did not maintain documentation substantiating that the client received child support and cooperated in establishing paternity and obtaining support. Case - V3501734A (Finding 2.a.) FIA did not maintain documentation of or accurately determine the family group income level. Case - V3501734A (Finding 2.c.)	67 (D) 67 (D)
25. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	FIA did not maintain documentation of or accurately determine the number of hours of day care needed. Case - V3501734A (Finding 2.c.) FIA did not maintain documentation of the verification of the day care provider's actual cost of care. Case - V3501734A (Finding 2.a.)	67 (D) 67 (D)
26. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	FIA did not use the lower of FIA's maximum rate or the actual provider's rate. Case - V3501734A (Finding 2.c.) FIA did not use the lower of FIA's maximum rate or the actual provider's rate. FIA paid less than the lower of FIA's maximum rate and the actual provider's rate. Case - V3090163A (Finding 2.c.)	67 (D) (24) (D)
27. Child Care and Development Block Grant (CCDBG) CFDA # 93.575	FIA improperly charged day care expenditures to the Child Care and Development Block Grant. (Finding 1.a.)	2,272,801 (D)

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995
Continued

Program and Grant/Contract Number	Finding	Questioned Costs (A)
28. Foster Care Title IV-E Payments CFDA #93.658	FIA adjusted its claimed costs for estimated known overpayments to foster care service providers. The actual amount of overpayments and final federal claimed cost adjustment will not be determined until FIA completes its reconciliation process and negotiates final cost agreements with the providers to determine the actual amount due to or from the U.S. Department of Health and Human Services. For four cases, FIA could not locate required documents to support payments to or on behalf of clients. Cases - V0810228C, C8266257G, V2536319F, and V0729495D (Finding 2.a.)	Not Determinable (C) \$ 9,094
29. Foster Care Title IV-E Payments CFDA #93.658 G 95 01 MI 1401 G 96 01 MI 1401	For two cases, FIA did not maintain documentation to support the rate paid. Cases - L8225905D and V3585016B FIA did not maintain documentation to support the rate paid. Case - V0616892E (Finding 2.a.)	8,741 (70)
30. Foster Care Title IV-E Payments CFDA #93.658 G 95 01 MI 1401 G 96 01 MI 1401	FIA improperly used Title IV-E federal funds when the court order stated a specific placement. Case - K5038484E (Finding 2.c.)	1,563
31. Foster Care Title IV-E Payments CFDA #93.658 G 95 01 MI 1401 G 96 01 MI 1401	FIA did not reimburse the Michigan Supreme Court for costs related to the Michigan Supreme Court Foster Care Review Board Program and, therefore, did not charge the expenditures to the Title IV-E grant.	(183,506)
32. Adoption Assistance CFDA #93.659 G 95 01 MI 1407 G 96 01 MI 1407	FIA made an adoption subsidy payment for a child over the age of 18 who did not have a documented mental or physical handicap. Voucher - VZF8005P (Finding 2.c.) One payment was more than the amount supported by the FIA-3755. Voucher - VZF8006F (Finding 2.c.)	454 1
33. Adoption Assistance CFDA #93.659 G 95 01 MI 1407 G 96 01 MI 1407	FIA did not draw Adoption Assistance funding in a timely manner per the CMIA agreement. As a result, interest is due the State. (Finding 3.a.(2))	(84,000)
34. Adoption Assistance CFDA #93.659 G 95 01 MI 1407 G 96 01 MI 1407	FIA did not have properly budgeted social security benefits. Voucher - VZF8003Y (Finding 2.c.)	25
35. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	FIA could not locate one case file supporting a payment. Case - V3523704A (Finding 2.a.)	162 (D)
36. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	For nine cases, FIA could not provide supporting documentation for the payment amount. Cases - V3630218A, V3639711A, V3449057A, V3523704A, V3617364A V3626959A, V3836022A, V3643340A, and V3657255A (Finding 2.a.)	1,272 (D)

This schedule continued on next page.

FAMILY INDEPENDENCE AGENCY
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995
Continued

Program and Grant/Contract Number	Finding	Questioned Costs (A)
37. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	For three cases, FIA did not maintain documentation to support that a valid need reason existed at the time of our sample payment. Cases - V3449057A, V3626959A, and V3617364A (Finding 2.a.)	\$ 345 (D)
38. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	For two cases, FIA did not maintain documentation or accurately determine the number of hours of day care needed. Cases - V3645407A and V3617364A (Finding 2.c.)	156 (D)
39. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	FIA did not use the lower of FIA's maximum rate or the actual provider's rate. Case - V3449057A (Finding 2.c.)	30 (D)
40. Social Services Block Grant CFDA # 93.667 1 95 01 MISOSR 1 96 01 MI SOSR	FIA improperly charged day care expenditures to the Social Services Block Grant. (Finding 1.a.)	5,662,848 (D)
41. Medical Assistance Program - Medicaid; Title XIX CFDA # 93.778 5 95 05 MI 5028 5 96 05 MI 5028	FIA did not correctly determine a patient pay amount. Claim reference number N-5025645412 FIA did not update a client's patient pay amount for an increase in income and the start of the Medicare premium buy-in. Case - V3104224A	(54) (B) 65 (B)
42. Various	FIA did not review the audit report for one subrecipient in a timely manner. (Finding 9.a.) FIA did not review the audit report for three subrecipients in a timely manner. (Finding 9.a.)	189,212 Not Determinable (C)
43. Various	FIA could not provide documentation for the Adoption Resource Exchange cost pool A-18.	7
Questioned Costs		\$ 11,500,442 (C)
Negative Questioned Costs		\$ (10,290,347)

- (A) Questioned Costs are defined as amounts potentially due to the federal government because of reimbursements for unallowable, undocumented, unapproved, or unreasonable costs or amounts potentially due from the federal government for reimbursements that were not claimed or claimed for less than the eligible amount. Amounts potentially due from the federal government are presented as (negative) questioned costs.
- (B) FIA's quality assurance programs review the propriety of payments to or on behalf of recipients under the Family Support Payments to States - Assistance Payments - AFDC Grants, Medical Assistance Program (Medicaid; Title XIX), and the Food Stamps Program. The results of these reviews are used to determine if federal sanctions will be imposed. Therefore, these questioned costs have already been indirectly resolved through the quality assurance process.
- (C) The amount reported is conservative because of the various items for which the amount of questioned costs is not determinable.
- (D) FIA incurred unreimbursed federal claims that exceeded the capped grant award amounts (see Note 1, Notes to Schedules of Federal Financial Assistance). FIA may be reimbursed for those claims if program disallowances result from these questioned costs.

CFDA is defined as *Catalog of Federal Domestic Assistance*.

FAMILY INDEPENDENCE AGENCY
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1996 and 1995

Program and Grant/ Contract Number	Finding/Noncompliance
<u>U.S. Department of Agriculture</u>	
1. Food Stamps CFDA #10.551	FIA local office staff did not refer non-exempt clients to the Michigan Opportunity and Skills Training (MOST) Program as required by federal regulation 7 CFR 273.2 . Case - V0980475B
<u>U.S. Department of Energy</u>	
2. Weatherization Assistance for Low-Income Persons CFDA #81.042 DE-FG45-89CG10411 DE-FG45-89CG10411	FIA could not locate monitoring files for one subgrantee to document that the subgrantee substantially complied with provisions in federal regulation 10 CFR 440.15 related to the Weatherization Program.
<u>U.S. Department of Education</u>	
3. Rehabilitation Services - Vocational Rehabilitation Grants to States CFDA #84.126 H126A50030 H126A60031	FIA did not obtain semi-annual certifications of federal payroll charges for five employees charged 100% to the Michigan Commission for the Blind Rehabilitation Services Basic Support Grant, as required by OMB Circular A-87.
<u>U.S. Department of Health and Human Services</u>	
4. Family Support Payments to States - Assistance Payments AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	Two of 21 cases did not contain the vendor payment request form (FIA-560) as required by federal regulation 45 CFR 234.60(a)(v). Cases - R8630840A and V1323466C
5. Family Support Payments to States - Assistance Payments AFDC Grants CFDA #93.560 G 95 04 MI 4007 G 96 04 MI 4007	Two cases did not contain the required support and third party liability information form (FIA-1856) to refer assistance clients to the Child Support Enforcement staff. Cases - V1323466C and V2744523A
6. Child Support Enforcement (Title IV-D) CFDA #93.563 G 95 04 MI 4004 G 96 04 MI 4004	OCS applied eligibility criteria that included Medicaid federal regulations that conflicted with Title IV-D federal regulations. As a result, OCS policy pertaining to eligibility required some Title IV-D clients to receive the full range of IV-D services even when they chose not to.
7. Child Support Enforcement (Title IV-D) CFDA #93.563 G 95 04 MI 4004 G 96 04 MI 4004	FIA did not take necessary action to commence legal proceedings against the absent parent in one case as required by federal regulation 45 CFR 303.4. Case - V0966946A

This schedule continued on next page.

FAMILY INDEPENDENCE AGENCY
Schedule of Immaterial Noncompliance
Fiscal Years Ended September 30, 1996 and 1995
Continued

Program and Grant/ Contract Number	Finding/Noncompliance
8. Low-Income Home Energy Assistance (LIHEAP) CFDA #93.568 G 93 B1 MI LIEA G 94 B1 MI LIEA G 94 B2 MI LIEA G 94 B3 MI LIEA G 95 B1 MI LIEA G 95 B2 MI LIEA G 95 B3 MI LIEA G 96 B1 MI LIEA G 96 B2 MI LIEA G 96 B3 MI LIEA	One of 7 cases did not contain a required vendor payment request form, which documents the client's decision on whether to have direct vendor payments for shelter, heat, and/or electric expenses. Case - R8508117A
9. Child Care and Development Block Grant (CCDBG) CFDA # 93.575 G 94 B1 MI CARE G 95 B1 MI CARE	One of 11 day care cases did not contain documentation that protective service status checks were completed on all day care aides and relative care providers. Case - V2970055A
10. Foster Care Title IV-E Payments CFDA #93.658 G 95 01 MI 1401 G 96 01 MI 1401	For one case, FIA did not complete a redetermination of AFDC eligibility (FIA-350) to document continued eligibility. Case - R8269405G
11. Medical Assistance Program - Medicaid; Title XIX CFDA # 93.778 5 95 05 MI 5028 5 96 05 MI 5028	FIA did not provide for an annual independent review of Medicaid services provided by prepaid plans with which the State has entered into a service contract in accordance with Section 1902(a)(30)(c) of the Social Security Act.
12. Medical Assistance Program - Medicaid; Title XIX CFDA # 93.778 5 95 05 MI 5028 5 96 05 MI 5028	FIA paid a claim to a hospital that was not an enrolled provider. Claim Reference Number - 52210000189, 6031000562, 618550000343, 42710000049 and 5172001235
13. Social Security - Disability Insurance CFDA # 96.001 4 95 04 MI D100 4 96 04 MI D100	FIA did not provide detailed documentation of the performance of on-site reviews for 10 of 21 providers as required by DDS's Publication No. 68-439500, Section E39545.235.

Glossary of Acronyms and Terms

AFDC	Aid to Families With Dependent Children.
ARS	Automated Recoupment System.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CMA	Cash, Medical, Administration.
CMIA	federal Cash Management Improvement Act of 1990.
CTF	Children's Trust Fund.
DDS	Disability Determination Services.
EDGE	Education Designed for Gainful Employment.
EHAP	Emergency Housing Assistance Program.
FIA	Family Independence Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
interface	A connection (link) between MAIN and an agency's separate accounting system. The data that is transferred to MAIN through an interface is posted at the detail level in MAIN.

internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
IWRP	individual written rehabilitation program.
JOBS	Job Opportunities and Basic Skills Training.
LIHEAP	Low-Income Home Energy Assistance Program.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules or financial statements, would not be prevented or detected.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
mission	The agency's main purpose or the reason the agency was established.
MOE	maintenance of effort.
OCS	Office of Child Support, Family Services Administration, Family Independence Agency.

OIG	Office of Inspector General, U.S. Department of Agriculture.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance, Family Independence Agency.
perpetrator	A person who has committed child abuse or neglect.
PPRISM	Personnel-Payroll Information System for Michigan.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
UCDC	Unified Child Day Care.